







INTERNATIONAL ASPECTS  
OF UNEMPLOYMENT





# INTERNATIONAL ASPECTS OF UNEMPLOYMENT

BY

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TO MY PARENTS

THOMAS ALLISON KIRKCONNELL

AND

BERTHA GERTRUDE KIRKCONNELL

THIS LITTLE VOLUME

IS AFFECTIONATELY

DEDICATED



## PREFACE

THIS book has been written, not as an addition to economic thought (presumptuous and vain hope !), but as a tract for present times.

Its conclusions are open to argument ; for while they seemed overwhelmingly evident to the author during recent visit to a dozen of the more important countries involved, yet the same ground has been covered by many older and more experienced observers, whose published deductions have not always followed the same lines.

The volume may, however, be of interest as the mental reaction of a native-born Canadian to an international problem. Canada has been reproached, sometimes not without reason, for the parochiality of her outlook ; yet there are those who believe that this new nation has small contributions of her own to make to the counsels of the world. Within her borders the primitive issues of human survival are still fairly evident ; a man must work to live ; society has no respect for the loafer, whatever his caste ; and demo-

cracy merges into an individualism that still acknowledges inherent human differences in natural ability and social worth. It is a country of hard work, where emphasis is still placed on duties more than on rights, on service more than on leisure. The mental attitude fostered by such an environment cannot but differ, for better or worse, from most of the typical views of English and European economists. Its Credo may occasionally be inchoate or inconsistent. It should be at least of interest and perhaps of value.

W. K.

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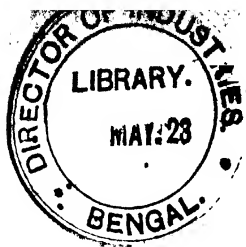
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# International Aspects of Unemployment

## CHAPTER I

### A PROBLEM OF POPULATION

UNEMPLOYMENT is a disquieting phase of modern Aryan industrialism. Essentially a problem of the great urban populations which have been built up by the mechanistic Western civilization of the past two centuries, it is in part an index to maladjustments in the organization of that system and in part a symptom of grave perils threatening that whole scheme of human life.

The former aspect consists of sundry flaws in the structure of our industrialism, due both to a lack of scientific planning for efficiency and human welfare and to a growing incapacity of man for rendering effective service to industry. Chapter II expands this diagnosis. In Chapter III, international co-operation is urged for the more thorough treatment of the malady, and steps thus far taken by the International Labour Organization are summarized.

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The second and more alarming aspect of unemployment takes us down to the very foundations of our civilization and questions its adequacy for the progressive maintenance of expanding populations. At a time when so many pillars of economic organization are crumbling in the world about us, the significance of idle millions may well extend beyond a temporary fluctuation in commerce and indicate the actual onset of a palsy. The relatively tranquil development of the later nineteenth century had blinded the present generation to the instability of the economic cirenicon by which the peace was kept between increasing populations and Nature's law of diminishing returns. The past eight years have bludgeoned away our unthinking optimism and have left us facing the future with bruised and open-eyed anxiety. The present essay reviews briefly, in Chapters IV and V, the economic and political principles involved in the origin and in the effectual treatment of our civilization's present sickness. The final section carries unemployment into the more profound realm of race history.

By way of introduction, however, it may be convenient to remind ourselves, in this opening chapter, of the manner in which our present civilization has developed, and to analyse in its structure those special points of weakness which have a bearing on the problem of unemployment.

The material basis for all civilization is some definite form of organization evolved by the inventive ingenuity of man, the paragon of animals, for the purpose of wringing from Nature ever greater supplies for the sustenance

of his kind. All resources come from the land, but the land, unlike mankind, is not subject to the law of biological increase. Humanity, on the other hand, not only multiplies its numbers in a geometrical progression but is also insatiable in its demands for an ever higher standard of life. To reconcile these antagonistic tendencies of Man and Nature is the task of human industry and commerce, and the measure of the success achieved has been demonstrated in the extent in wealth and numbers of each of the civilizations known to history.

By far the most successful and extensive of all has been that form of industrial civilization which seemed so promising and so permanent at the opening of the twentieth century. Its influence was dominant over wider areas; its principles maintained far larger populations; and its devices were thus more successful, than ever before. But on the other hand, this success had been bought at the price of complexity and instability. Not only was the invaluable system based on such purely psychological elements as confidence, thrift and habit; it had also brought about the unmistakable interdependence of all modern peoples. And the urgent necessity for international co-operation to safeguard this fragile economic system was met instead by the violence of jealous nationalism. Economics, pled silently but desperately for world unity to protect the essential source of the world's life and livelihood; but nationalism would have none of it. Hence all is now imperilled.

To unfold the history thus summarized will take us back several centuries—to the period

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when the first germs of our modern system began to show life.

In the early Middle Ages, European civilization was based on national agriculture. Each country was self-sufficient after a primitive fashion and trade was chiefly local. Transport faced almost insuperable obstacles. By land, the roads were often impassable except for a pack-horse with his small load, for the old Roman road-system was in ruins, and no State had yet arisen with sufficient skill or authority to restore it. The rarity of bridges necessitated circuitous journeys. Security was very uncertain when constant tolls were levied along the way and banditry was practised as a profession by outlaws and as a pastime by medieval nobles. Nor were conditions much better by sea, for navigators had not yet conquered the deep. Vessels were small, propelled by sails or the muscles of slaves, and seldom ventured beyond the Mediterranean and the near coasts of familiar mainlands. And on these shores lurked pirates, ready to loot and scuttle the unprotected merchantman. Under such conditions commerce was supremely speculative, carried on in goods of small bulk and great value, and the prices necessary to cover the risks involved were so high as to discourage the growth of trade. Church and State both added to the inclemency of the commercial weather by raining down vexatious restrictions on all who sought to promote business.

During the course of the Middle Ages this trade grew somewhat in volume, but changed little in kind. Great trading cities, such as

Venice in the south and the members of the Hanseatic League in the north, sprang up and protected their commerce by force of arms or co-operation. Yet the merchandise was still chiefly a matter of gems, perfumery, silks and spices, together with small quantities of wool, linen, leather and food. The peoples of Europe had their simple wants largely supplied by the production of their own districts. The products of foreign lands which are in such common demand to-day—sugar, tobacco, tea, coffee and tropical fruits—were unknown and hence not missed. Life was starkly primitive, with fewer amenities than many half-savage races know to-day, and the grain, meat and fibres of a clumsy agriculture made each country virtually self-sufficient.

After the fifteenth century, Europe's horizon suddenly widened. The warlike expansion of the Ottoman Turks, who had no sympathy with international commerce, blocked the old caravan route to the East and set the angry but impotent traders of Europe searching for a new route to the Orient. Trade thus became, to use Seeley's conception, oceanic instead of thalassic, spread over all the oceans of the earth instead of confined to the Mediterranean and the coasts of Europe. A new continent was discovered far to the west. Africa was circumnavigated, soon to be followed by South America and the round earth itself. Before the eyes of a wondering Europe, vast new fields for commercial endeavour were unfolded, stretching out into bewildering distances, filled with strange animals and peoples, and rich in the substance of trade. Just how

rich these new regions were in raw materials and the undeveloped prototype of an industrial civilization was not realized at the time. The means of production were primitive, and transport was ridiculously inadequate. Three centuries were to elapse before the potentialities of the earth and the fulness thereof began to grow into the structure of a new civilization and the wealth of far-off continents became revealed in its true light.

In the meantime, sovereign States began to take shape out of the shadowy unity of medievalism. The Renaissance conception of sovereignty, the adolescent form of modern nationalism, led the States of that time to seek separate economic development, each for itself. The resources of the New World were sought as a means of nourishing their national bodies, and colonies were founded as commercial "feeders." Economic factors began to dominate international politics, and the wars of the seventeenth and eighteenth centuries were chiefly struggles for colonial empires—jealous conflicts for the means to aggrandize the nation-States of Western Europe.

But as the woof to this vivid warp in the growing fabric of civilization came a fundamental economic change which was to render these irritable States more and more dependent upon one another, even while increasing their powers for good and evil far beyond the dreams of Renaissance times. This whole change was dominated by money and the medium of exchange, for money bargaining had gradually permeated every department of life, and shaped

the development of competitive prices in trade, capitalist pasture farming and capitalist tillage ; and its final extension to industry led to those two profound and closely interrelated transformations of civilization which are known as the " industrial revolution " and the " commercial revolution." These vast changes have had their origin in the apparently simple adoption of a money economy, but like the genie released by the fisherman in the *Arabian Nights* they have spread out and dominated the whole earth. They have made possible a new urban civilization, with an expansion of population never before known in history ; and have produced at the same time such complexity in the economic structure of the world that the fortunes of every nation are inextricably intertwined with those of every other nation, and none can suffer without hurt to all the rest. Thus we have the modern paradox of violent political nationalism co-existing with almost universal economic internationalism.

The industrial revolution was essentially a change in the methods of production. Frequently assigned, as if it were a spontaneous outburst, to some such date as 1760 (when the blast furnace and the flying shuttle made their almost simultaneous appearance in England), the revolution was in reality a continually accelerated development whose roots lay far back in the Middle Ages and for which the later eighteenth century only began the flowering-time. The condition which most of all favoured this quickened growth was the application to industry of the principle of capitalism—meaning thereby



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not the institution of private property, which is as old as history, but the "capital investment" system, whereby accumulated wealth is used to furnish the instruments of production and then to employ wage-labour with such specialization of working-function as to make production on a large scale possible as never before. The creation of such a system made the adoption of new mechanical inventions a natural sequence, for though these would have been useless in a world of individual cottage-handicraftsmen, their application to the integrated capitalist manufactory was both possible and desirable. The rudiments of the system are to be found in the English cloth trade as far back as Tudor times, but its full incorporation in industrial life did not occur until the eighteenth century. Then came a tremendous mechanical expansion. The blast furnace made it possible to utilize coal in smelting iron, and the coal and iron trades made great strides forward. Watt's steam-engine was given to industry in 1785, and the enormous English coal supply gave this country a clear lead in the application of machinery to manufacture and to shipping. In the staple trade of England—the cloth industry—the transformation due to new inventions was steady and definite. The flying shuttle was followed by the spinning jenny in 1767, the spinning roller in 1769, the spinning-mule in 1779, the power loom in 1785 and the wool-combing machine in 1790. By the year 1840 power-machine production had virtually superseded hand work. \*

The result in this and other industries was an enormous increase in productivity. The raw

materials of the country grew less and less adequate to fulfil the demands of the process, and the farther regions of the earth, now at last viewed as full of potential wealth, were drawn on for larger and larger supplies of grist for the industrial mill. There was at the same time a converse search for ever-widening markets for the sale of the ultimate manufactures, and so Asia, America and Africa were drawn into the great economic system of exports and imports. Their raw materials and surplus food were sent to England and other European States, and in exchange they received back the finished products of industry.

Supplementing the industrial revolution came the commercial revolution—on the one hand, a transformation of the means of transport and communication, and on the other an astonishing development of that money economy which was the first cause of the whole change.

Between 1840 and 1880, the improvement in transport transformed the trade of the world. Railways came to knit the older countries together into homogeneous units, with cities a day's journey apart, which were once separated by perhaps two weeks. In new countries such as America, economics became continental instead of littoral, and trade permeated everywhere instead of fading away when the proximity of sea-coast or navigable river was left behind. Steamships superseded sailing-ships and increased in capacity, speed and reliability. The earlier elements of risk began to vanish from trade and the possibility of prompt and safe delivery came to be taken for granted. The

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size and number of the steamships made possible international trade on a large scale in such bulky commodities as coal, iron, wood, raw textiles and foodstuffs. Transisthmian canals at Suez and Panama shortened the routes between markets. Postal facilities became cheap and universal. The telegraph, the submarine cable, the telephone, and latterly the wireless, became common means for instant intercommunication between all parts of the world. There was a miraculous shrinkage in distances. For purposes of trade the seven seas were a closer unity than medieval France; and for purposes of intercommunication the wide world became narrower than an Elizabethan shire.

Statistics are often dull, but without figures the extent of this commercial revolution may easily pass uncomprehended. A century ago the world was virtually without railways, steamships, cable, telegraph or telephone communication, and was linked together by infrequent mails and cargoes, carried on sailing-ships by sea and horse-drawn vehicles by land.

In 1913, the cables of the world totalled 300,000 miles in length, or farther than from the earth to the moon. In the same year the railways of the world stretched over 612,290 miles, or more than twenty-four times the circumference of the earth. In 1915, there were delivered in the United Kingdom alone some 3,400,000,000 letters, more than two for every human being on earth. In 1919, there were 3,547,576 miles of telegraph wires in the United Kingdom, and over them some 88,700,000 messages were transmitted. There were at the

same time 14,000,000 telephones in the United States of America. Finally, the merchant shipping of the world, amounted, in 1921, to 61,974,653 tons, of which about two-thirds was Anglo-Saxon (i.e. British and American).

The other phase of the commercial revolution was its financial aspect. The development of the eighteenth and nineteenth centuries would have been impossible without an enormous accumulation of capital and the erection on this capital of a sky-scraping system of credit. The effective beginnings of this change in Great Britain may perhaps be ascribed to the foundation, in 1694, of the Bank of England. Its initial capital (loaned to the Government at  $8\frac{1}{2}$  per cent) was £1,200,000. In 1913, the deposits in English banks, exclusive of the Government account in the Bank of England, amounted to £870,438,800; while over £3,500,000,000 had been invested abroad. The enormous expansion that came in the years between was based on the psychological foundation of confidence. The belief that the Government would support the Bank of England through all difficulties, encouraged private individuals to trust their savings to the Bank and to accept as current its paper notes. The same feeling of trust, built up year by year, was extended to the ancillary banking institutions which grew up as handmaidens of the national Bank. The general integrity of financiers confirmed the principle of confidence and the deposited capital continued to increase. The use of paper currency, cheques, notes, bills and credit, multiplied the effective value of this

capital to industry many times over. Banking had had a longer history on the Continent, but it was in Britain that courage, trustfulness and comparative peace first led to a great accumulation of money in banks available both for industrial investment and for the current needs of trade. This pre-eminence in capital development made London the financial focus of the world, where all countries sought capital, held reserves and cleared accounts. A complex system of international exchange was evolved, and fertilizing capital was poured into the far corners of the world.

Especially in the development of the machinery of industry and trade was this capital investment a transforming force. The railway transport system of the world is absolutely vital to modern trade, and its construction has only been made possible by the devotion to that purpose of the surplus savings of countries like England. In this particular instance, it was British capital which led the way, creating the railways, first of Britain, then of the United States and South America, then of Europe, and finally of Canada and the other British Dominions and Colonies. By 1848, Britain had subscribed £600,000,000 to railways; and in 1914 she had £2,000,000,000 invested in railways outside of the United Kingdom. The same story is to be found in the building of ships, factories, machines and other instruments of production. Everywhere the modern world has been called into being by the activity of capital.

The wealth which has thus been developed by the action of capital, through the mechanism

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of production, on the raw material of the world is truly amazing. The figures given below, collated by Sir Josiah Stamp from various authoritative sources, give the estimated wealth of eighteen countries in 1914. Default of comparison may detract from the impressiveness of these statistics, but it may assist the imagination if we add that the world's wealth in 1914 was ten times that in 1814 (when the industrial revolution was already well advanced), and may be put at from fifty to one hundred times that of the Elizabethan era.

TABLE OF NATIONAL WEALTH, 1914.

Country.	Capital in £	Per Capita (£).
United States .. ..	42,000,000,000	424
Germany .. ..	16,550,000,000	244
United Kingdom .. ..	14,500,000,000	318
France .. ..	12,000,000,000	303
Russia .. ..	12,000,000,000	85
Austria-Hungary .. ..	6,200,000,000	121
Italy .. ..	4,480,000,000	128
Spain .. ..	2,940,000,000	144
Argentina .. ..	2,400,000,000	340
Japan .. ..	2,400,000,000	44
Canada .. ..	2,285,000,000	300
Australia .. ..	1,530,000,000	318
Belgium .. ..	1,200,000,000	157
Holland .. ..	1,050,000,000	167
Sweden .. ..	940,000,000	168
Switzerland .. ..	800,000,000	205
Denmark .. ..	500,000,000	176
Norway .. ..	220,000,000	90

But the industrial civilization nourished by this wealth was a very complex, delicate and unstable organism. In the first place, its growth

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had come from an unequal distribution of wealth. Whatever evils may be ascribed to the capitalist system, whatever horrors may have been perpetrated by its unregulated development in the past, and whatever abstract arguments may be advanced against its inequalities, the fact remains that the system has worked.

Only the saving of surplus wealth and the application of such accumulated resources to industry can make possible the maintenance and expansion of our huge modern civilizations. The nineteenth century saw such a steady massing up of savings that the struggle of man with a niggard earth became more and more hopeful. Britain, whose population was trebled during that period, saw a concomitant rise in the general standard of life. Two-thirds of the nation was pulled safely over the poverty line; the prosperity of the remaining third within a generation seemed assured; and the devotion of national wealth to new social services pointed to the proximity of the Promised Land. Now, however, the war has wasted our resources and has turned us back to wander yet another forty years in the wilderness. National saving must begin all over again, or the existing standard of life will be depressed to what will be for some the point of extermination.

Whether the necessary reserves could be built up under any other form of polity is very uncertain. Those expositors of Socialism who call for an iron equality in individual wealth seem little concerned over this wider issue. Their theories are always of distribution, never of accumulation. They aim to divide up, as

legitimate plunder, the stores which thrift has laid by in the past ; and keep silence on the vital need for even greater stores and greater thrift in the future.

The feasibility of such husbanding of surplus wealth under a system of equal incomes is very doubtful. It is to be feared that most increases in small incomes would be at once burnt up in an enhanced standard of life. The fact that war-time bank savings amongst the English working classes rose in a direct proportion to the increase in their wages seems to belie this fear, and the symptom is welcome ; yet the psychological atmosphere of the times, with the Government urging frugality as a patriotic duty, was too abnormal for the occurrence to be a guarantee of similar conduct under dissimilar circumstances.

The chief contra-indication, however, is found in the very smallness of the shares under an equalization of fortunes. If, even as late as 1914, the total national wealth of Great Britain had been so invested as to bring a sure (and very favourable) return of 10 per cent., and this income had been divided with perfect equality amongst the population, the share of each, from king to pauper, would have been twelve shillings and threepence per week. This, too, would presume no increase in population at any future time, and would make no provision whatever for such governmental expenses as education, justice, defence, administration and national debt services. There are, of course, many necessary qualifications of this general description ; the incomes of all State employees,



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for instance, would figure both as debits and as credits on the ledger page ; but when all reservations are made, it remains difficult to see where savings sufficient for the maintenance of an immense and expanding civilization could be found.

These essential accumulations have, however, been forthcoming until now under the capitalist system. The development of our modern States and populations has been made possible because a minority of the people have received, through greater ability, opportunity, or rapacity, much more than an average share of the national income, and then, instead of spending it all (as they would have been quite free to do) have in reality spent very little of it and have reinvested the rest, to the common benefit of the nation. The waste of wealth by a few of the overpaid class and the suffering and misery of many of the underpaid class have been the price paid by society for this development. The process has often been abominably cruel, when left to work itself out without any checks on the evil promptings of human nature, but the last century has seen a progressive movement towards its full regulation for the benefit of society.

Capitalism is not a sacrosanct principle. It is only an expedient by which an end necessary to civilization is achieved. From a moral point of view, its grosser inequalities are iniquitous. No human household could possibly spend more than two thousand pounds a year without committing antisocial sins of waste ; and on the other hand every phase of amelioration in the life of the nation's lower strata must be hailed

with grateful pleasure. But if an industrial civilization is to be supported and extended, and if the standard of life is to be maintained and improved, there must be a progressive accumulation of capital. For this purpose, the capitalist investment system, based on an inequality of incomes, is the only effective device yet evolved by man. But it is a means to the end of social welfare and not an end in itself.

The two chief dangers to the effectiveness of this capitalist system are that the populations which it has made possible should come to outstrip the provisions of accumulated wealth, and that the thrifty should cease to save. The vital forces of the former hazard are continually pressing against the limits of subsistence. The latter risk is chiefly psychological. If the uncertainty of the times destroys the public belief in saving as virtue or as policy, and if all surplus incomes are spent in riotous living and capital ceases to accumulate, then the system has ceased to fulfil its purpose and has no further justification for existence. The foundations of the capitalist system are thus profoundly unstable, being mere rocks of parsimony beaten about by waves of increasing population.

But if the foundations are uneasy, the superstructure is more unstable still. If the accumulation of capital is based on the human instinct of acquisitiveness and the consequent desire for economy and investment, the system of credit, which is based on capital, is built about a framework of confidence in the honesty of our fellow men. At no time in the past fifty years has the world's supply of gold been as large as

the bank deposits in Great Britain alone, and upon that limited foundation have been reared systems of bank-notes and Governmental paper currencies, and on these, still dizzier masses of cheques, drafts, bills of exchange and national and international credits. To extend a former figure into the realm of Scheherezade description, capital is the projecting peak of a rock of acquisitiveness thrust up from a restless sea of humanity, and on this rocky peak rests a vast inverted cloud of financial credit, whose continual rains are necessary for the maintenance of the waters of the sea. The permanence of the system depends upon psychological factors and its complexity is only equalled by its instability.

These changes, first in the mechanical means of transport and communication and secondly in the accumulation of capital and development of credit, constituted the commercial revolution.

The combined result of the commercial and industrial transformations was the loss of medieval self-sufficiency and the evolution of world-wide economic interdependence. The industrial nations drew food and raw material from the ends of the earth, and from them the ends of the earth received back the products of manufacture. In spite of the obstacles imposed by nationalism—through tariffs and other manipulative restrictions—a kind of rough territorial division of production sprang up, grouped usually, but not always, in some sort of regional system. One typical example was the economic organization which had, in pre-war times, clustered around the capital and industry

of Germany. To Russia, Austria-Hungary, Bulgaria, Rumania and Turkey, Germany gave capital and intelligent direction. To Italy, Switzerland, Belgium, Holland, Denmark, Norway and Sweden she was a great and essential market and the source of the coal on which most of them depended for industrial survival. Thanks to this economic interdependence, a vast web of transport was spun out to knit all parts together, currencies were comparatively stable on a gold basis, tariffs were cut down to a minimum, and a vital stream of capital and trade circulated through every part. Another economic system, less closely bound together, concentrated on the British Isles. Here came more extensive world-wide trade, with India, the United States of America, the British Colonies and Dominions, South America, and the Far East—and also, since the Britannic and Germanic circles of influence intersected deeply, a very heavy interchange of products with the countries of Europe. The United States was the focus of still another economic constellation, and in Russia were the resources, human and material, which made it the potential centre of a similar system. But all of these regional groups mingled mutually in world trade: there was greater activity in certain determined directions than in others, but, no system was capable of prosperity apart from all others.

The extent of this trade intercourse is well shown by the figures of exports and imports of the chief countries of the world in 1913 (with re-exports eliminated) reckoned in sterling:

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Country	Imports.	Exports.
	£	
United Kingdom	659,000,000	525,000,000
Germany ..	515,000,000	492,000,000
United States	360,000,000	500,000,000
France ..	333,000,000	272,000,000
Holland ..	325,000,000	257,000,000
India ..	226,000,000	249,000,000
Belgium.	181,500,000	144,000,000
Italy ..	144,000,000	100,000,000
Canada ..	135,000,000	90,000,000
Argentina	100,000,000	104,000,000
Australia	78,000,000	75,000,000
Japan ..	74,500,000	64,500,000
Brazil ..	67,000,000	65,500,000
Switzerland	76,000,000	54,000,000
Spain ..	52,000,000	42,000,000
Sweden	47,000,000	45,000,000
Denmark	42,500,000	35,000,000
New Zealand	21,000,000	21,000,000
Finland ..	19,400,000	16,000,000

The significance of these figures may be grasped from the fact that they represent an eleven-fold increase in import trade during a century. In the short space of one hundred years the imports of the world had grown from £400,000,000 per annum to £4,400,000,000 per annum. The interchange of goods had grown amazingly, making each nation more and more dependent on others for its raw or finished products. Rhodesia and Nauru threw their wealth on the world market, and even Tibet and the United States were unable to exclude the manufactures of Europe. The economic unification of the world was becoming more and more a visible and necessary goal for the human race.

The failure to attain this urgent consummation was due to the antagonistic obstruction of modern nationalism. In the political world, development had not paralleled that in the economic world. The centripetal appeals of international necessity were flouted by the violently centrifugal ambitions of nationalism. With the governments of the sovereign States there had grown up the tradition of jealous national power for its own sake, while popular thought came to thrill to abstract conceptions of national "deities"—Britannia, La France, or Germania—regardless of the fact that the different nations were in reality very similar masses of human beings, knowing the same joys and aspirations and sorrows and hungers. On the practical side, much national capital was invested abroad in purely national ventures, backed often by the home governments, and so instead of ordinary private competition we have the economic rivalry of State and State. Both the ambitions and fears of the nations then led to preparation for wars of offence and defence, and for military reasons of state, strained efforts were made to render national economics as self-sufficient as possible by means of prohibitive tariffs and the encouragement of agriculture.

Behind all these warring nationalistic demonstrations by Aryan States, in defiance of the increasing need for world unity, there have arisen in the most recent times the black clouds of racial self-consciousness amongst the other peoples of the earth. Turanians and Semites are in bitter ferment against European interference in the Near and Middle East. The black

races have organized internationally. In the Far East, even the peaceful Chinese have taken anti-foreign action at Hong-Kong and Canton. And in India the native movements are more racial than religious or political. To the Hindu agitator, for example, the industrial civilization of the West is a confederacy of white races holding the world in economic subjection. He believes that if the white races have their way this position will be maintained and the coloured races will remain forever hewers of wood and drawers of water, or, in modern terms, producers of cheap raw materials to be exchanged for dear manufactured goods. He draws the logical conclusion that a White Communist Party is no more likely to prove his friend than a White Tory Party. The proletariat of Lancashire will neither welcome the competition of Indian cotton mills nor be pleased to pay for their tea the price that would be necessary to give coolies in Assam tea-gardens the same standard of life that they enjoy themselves.

The forces of disruption are strong and full of danger, but the precarious process of world-unification has gone so far and on that foundation populations have been so built up that any considerable breakdown of economic internationality would be a disaster to the whole human race. It is the most urgent problem of our day to evolve such measures of international government as may confirm the economic structure on which all depend, and control it for the benefit of humanity.

The gravity of the issue can be best understood by considering the immensity of the

hungering, throbbing human life which has been made possible by our international economic system and requires that system for its very existence. The growth of the world's population is the most profound fact in modern history. Politics and economics have no meaning or value except as they apply to human life; yet the significance of the expansion of the race in the last three centuries is frequently overlooked or disregarded in our study of the world's development. Even Mr. H. G. Wells' *Outline of History*, which so often brilliantly displays the novelist's instinct for sketching in the strong lights and shadows of the human story, fails to make us realize the astounding fact that the whole population of Tudor England could be swallowed up in modern London, that half the numbers of the Roman Empire are now concentrated in these little islands, and that this is due to a great qualitative change in the economics of civilization.

A crude biological law, which must, perforce, be applied to humanity, states that life tends to multiply up to the limits of its food supply. Any increase in the means of subsistence is promptly followed by an increase in population, and conversely a gross excess of increase over the numbers for whom a given civilization can make provision means under-nourishment for many and for some elimination through starvation.

At the beginning of the sixth century A.D. the population of Europe totalled 40,000,000. Primitive agriculture and hunting could support only scattered communities in the north, and on



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the shores of the Mediterranean the decay of Roman civilization had thinned out the countryside. By A.D. 1500, ten long centuries later, this population had slowly risen to 70,000,000. Agriculture had prospered and great tracts of forests had given place to farmland, yet the food supply grew slowly and the people of Europe increased at a rate of less than 8 per cent. per century during this whole millennium. After A.D. 1500, European civilization became oceanic, trade with distant continents sprang up to increase the wealth of States, the industrial revolution began to manifest itself, and by the year A.D. 1800, Europe contained 170,000,000 inhabitants. The rate of increase had suddenly sprung up to 48 per cent. per century for the interval since A.D. 1500. The final period from A.D. 1800 to the present has seen the greatest change of all. With the expansion made possible by the combined development of the industrial and commercial revolutions, the resistance of food to the increase of population gave way still further. Cereals were brought from North America, India and the Argentine Republic. Cold storage made the shipping of meats and dairy products possible. Intensive farming on a large scale greatly increased the productivity of Western Europe; and in the East, Russia's great prairies poured out huge surpluses of grain. Towards the end of the nineteenth century, population began to catch up again and the law of diminishing returns began more visibly to affect food production; but here again the oil-seeds and other resources of tropical Africa were brought in to redress the

balance. As a result, Europe has now a population of 400,000,000, more than double the total of A.D. 1800 and the consequence of an increment-rate of 108 per cent. per century.

This increase has not, however, been equal in all countries. In France, partly because of the persistence of an agricultural civilization, and partly because of Neomalthusianism, the advance has been only from 26,000,000 to 37,500,000, or less than 45 per cent. over the whole period. Great Britain and Germany, on the other hand, which have become the two great industrial countries of Europe, have both trebled their population, the former increasing from 15,000,000 (even this a 150 per cent. advance from 6,000,000 in 1760, when industrialism began!) to 47,000,000, and the latter from 23,000,000 to 70,000,000. And the greatest increase of all had been in Russia, where a rapid agricultural expansion, aided and stimulated by Western Europe, was followed at the close of the nineteenth century by a belated industrial revolution, and the human integers of that great regional aggregate leaped up from 14,000,000 in A.D. 1722 to 128,000,000 in A.D. 1897 and to 175,000,000 in A.D. 1914. In the New World, the United States showed a similar mushroom growth from 5,000,000 in A.D. 1800 to 105,000,000 in A.D. 1921, while the Middle West was being brought under cultivation and the Eastern States were being industrialized; but in this instance immigration was conjoined with national fecundity as a means of expansion. In the two decades 1894-1914, for example, some

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15,000,000 pilgrims entered this land, of obvious promise.

The general rate of increase in Western Europe, has, on the whole, been slackening off since 1878, a date to which may be assigned the effective rise of Neomalthusianism, that social program whereby the fitter elements of a community forego normal parenthood and leave the future of their race to the teeming progeny of the unfit and improvident. But in spite of this dysgenic gospel and the gradual slowing down due to it and to economic factors, the population of the "white" world had, by 1914, reached a giddy and amazing sum, maintained in a precarious equilibrium by the products of Europe and the surpluses of the world at large.

The extent of European dependence on foreign supplies is enlightening. In pre-war times, Switzerland imported 78 per cent. of her grain supplies, Great Britain 75 per cent., Holland 66 per cent., Norway 65 per cent., Denmark 28 per cent., Austria 22 per cent., Italy 18 per cent., Germany 16 per cent., Sweden 14 per cent., and France 12 per cent. Russia and the United States, the two greatest wheat-producing countries, exported surpluses of 14 per cent. and 19 per cent. respectively, and further important supplies came from Canada, Argentine Republic, Australia and the Punjab. But it is significant that of a total wheat production in the world of over four milliard bushels in 1913, only 11 per cent. was exported and of this the United Kingdom took more than one-third. The continued supply to industrial States of this absolutely essential food depends

partly on the continued dispatch of capital and manufactures to the newer countries to maintain a financial claim on their exports, and partly on their food supply continuing in excess of their needs. This second condition was for many years before the war ceasing to be true in the case of the United States, where the surplus exported dropped from 32 per cent. in the decade 1891-1900 to only 19 per cent. in the decade 1901-1910. War-time production, under most unusual conditions of tilth and economy, led to such feats as the milliard-bushel crop of 1915, which left a great margin for export: but a return to normality makes it appear once more probable that the population of the United States will soon overtake its food supply, leaving no excess to support populations elsewhere.

The whole question of feeding the modern world, apart altogether from regional famines, is thus one of grave importance. Improved methods of intensive farming, with the use of natural and artificial fertilizers (the hope of many, from Liebig to Sir William Crookes) and of such new and more productive varieties of grain as our Mendelian experimenters may devise, contain great promise for the future: for the United States still knows only extensive cultivation, less than one-quarter of Canada's 440,000,000 acres of arable land are even occupied, and vast tracts of Siberia and Australia have yet to be brought under the plough. But in Western Europe, intensive cultivation has already been well pressed forward. England, to be sure, uses only a miserable fraction of her

possible farmland, but in France and Germany a deliberate agricultural policy has made them two of the most self-sufficient of European countries. The conclusion remains, however, that whatever may be the advance of scientific agriculture, Western Europe must now and in the future be dependent to some extent on food from other lands. And if that dependence is not to lead to disaster, the fabric of international economic life must be guarded and strengthened.

No less is this true of the raw materials of the world, and here the case is somewhat worse. For while foodstuffs represent the interest on the wealth and work devoted to agriculture, the world's past treatment of its wood, coal, petroleum and metals has been a reckless expenditure out of capital. Trees can and will be grown as crops: every civilized nation is awakening to the necessity for a definite policy of forest culture. But in the case of oil, coal and economic minerals the supplies have often positive limits in a calculable future, and, while such perpetual substitutes as hydro-electricity and industrial alcohol may help to save us from our past sins, the very finite stores of terrestrial resources which still remain must not be subjected to headlong exploitation.

With certain reservations, chiefly in point of coal and iron-ore, Western Europe is far from adequately supplied by Nature with the raw materials of twentieth-century industry, and here again the cumbrous populations are dependent, for their work as well as for their food, on international trade.

The large city is the typical embodiment of

this modern industrial polity. Urban industrial populations have been growing out of all proportion to agricultural populations, and in some countries there is a deep cleavage, amounting to actual hostility, between the two. The vast 'throngs of city workers,' the miscalled "proletariat" of modern times, thus present a new and distinct category of humanity. The primitive economy, in which a man sees his labours directly supplying his wants, is far past. Gone, too, is the medieval regulation of activities by social status. Urban civilization is now a system, infinitely specialized and insubstantially impersonal, in which employment, usually in some small and seemingly trivial process, yields a wage; and this wage is the worker's sole claim on the resources of life. Employment thus comes to be sought after as a thing in itself, and the lack of it (the contingency involved in the theme of this essay) regarded as the greatest of industrial evils to the individual.

As we shall see in our next chapter, unemployment may often be due to faulty organization in the industrial world. The precise balancing of labour supplies and fluctuating industrial requirements in a hundred different trades calls for the most careful scientific regulation. And where a labouring system has grown up at haphazard, there are inevitable disharmonies in its processes, whereby some of its human instruments may be thrown into involuntary idleness.

Behind and beyond all this, however, we have the possibility of unemployment indicating incipient collapse in our whole economic system. We have already outlined, and shall enlarge on

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later, the perilous onslaughts of nationalism upon the principle of our common preservation. This is the danger from without.

An internal source of danger lies in the intemperate violence of labour unrest. Recent years have witnessed, especially in Europe, a progressive movement towards the conquest of political and economic power by the proletariat. The tendency is apparently a psychological inevitability in all great industrial populations. It is even more evident, however, that unless this movement (whether towards industrial democracy or towards class tyranny) can maintain and increase the productive power, per human unit, of our economic system, it will become impossible to obtain food supplies either from national agricultural populations or from the markets of the world, and urban civilization will end in mouldy ruin. Yet all too many apostles of change seem to forget that the economic organization which supports us is complex and delicate; and that it is in steady, cautious modification and not in catastrophic substitution that our only safety lies. The extreme example of the latter folly is to be found in Soviet Russia, where, in a very comprehensible reaction from one of the most evilly conducted industrial revolutions in history, the fanatic doctrinaire leaders of the urban proletariat have destroyed the whole mechanism of trade and those whose intelligence made it function. It is the spectacle of a man tearing out his entire nervous system because he has suffered from a single tumour on the brain; and the country now lies like a pithed giant, starv-

ing, plague-ridden and impotent. The same peril exists wherever an industrial proletariat, with no visible stake in national welfare except a wage, is prepared to destroy the system that feeds it, in the ignorant hope of ushering in a Utopia. A leaky ship in stormy mid-ocean would soon founder (with all on board) if, in place of prudent patching, its whole bottom were torn out for repairs by zealous mutineers. • Such are the chief ways in which Western civilization has, in the past two centuries, sacrificed stability in order to grow in size and complexity. The same law which set hard limits to the evolution of crystalloids, with their equilibratory stereo-chemistry, while opening out the whole future of organic life (and death !) through the labile composition of colloidal matter, has enabled mankind to reach a stage of culture, wealth, scientific knowledge and sheer accumulation of numbers undreamt-of in the past. But the price has been such an instability of structure and such an interdependence of the jarring communities which compose our world as to make the solicitous regard for economic survival, both by temperance in industrial change and by the promotion of political world-unity, the supreme duty of this day.



## CHAPTER II

### NATIONAL DIAGNOSIS

THE most obvious and immediate causes of unemployment lie in the imperfections of our industrial system—imperfections both of trade flow and of labour quality. These are the factors blamed by most orthodox economists and treated (by means of local applications) by doctors of the body economic. The dullest observer can detect the symptoms in the community about him, and corroborate the diagnosis. Yet while, as in this chapter, we analyse, point by point, these surface manifestations in national industry, we must always remember the complex and international character of our industrialism. Economic disturbances may have their origin far beyond the boundaries of the nation they afflict, and remedies may be stultified or turned to evil because rival States are indifferent or hostile to reform. Scrutiny within a national area will be simpler for the time being, but the wider considerations must remain steadily as a background.

These more specific causes of unemployment may be conveniently classed as *objective* and *subjective*, the former being the fluctuations which occur in trade and the demand for labour, and the latter, that lack of industrial fitness in

individual workers which so largely determines the incidence of unemployment.

The fluctuations in industry are of two types—(1) seasonal, where the cycle of activity and depression is completed within a single year, and (2) cyclical, where the period involved extends over several years (roughly a decade, according to the observations of the past century). The former affect definite industries in characteristic ways and at fixed times during each year; the latter affect all industries, trades, and nations, drawing all alike into the Slough of industrial Despond.

The chief cause of seasonal fluctuations is quite obviously climatic. In the temperate and subfrigid zones, winter lays an icy hand of arrest on agricultural activity. The Saskatchewan farmer and the peasant of the Ukraine have very definite times for ploughing, sowing, and harvesting, and likewise seasons of snowbound idleness. Activities dependent on agriculture are impressed with a corresponding periodicity. Similarly, weather has a direct affect on the building trades, and indirectly, through influence on demand, on coal-mining and the manufacture of gas and electricity.

There are other less logical fluctuations due to the public observance of times and seasons, of high days and holy days. Custom rather than climatic necessity determines the times of special stress for millinery and tailoring establishments. Retail commerce is pressed almost beyond endurance at Christmas-time, and at other times fidgets at the dullness of trade. Again, mere force of custom has long confined the sales

of wool in the British Isles to six specific occasions in the year. Hotels have their "seasons." Even trades far removed from any conceivable connection with meteorological change are, through the intimate interrelationship of all factors in modern industry, afflicted more or less with seasonal periodicity of demand for their goods, a variability which tends to be reflected in their own demand for labour.

The widening of the scope of modern industry has tended to smooth out many of these seasonal irregularities. Large-scale industries which can afford to make for stock are less influenced than small-scale industries. When markets and sources of raw material are extended into various regions of widely differing climates, local fluctuations tend to offset one another. For instance, a story is told of a British firm which manufactured electric lighting equipment and which insisted that every order placed by its agents in markets north of the equator should be balanced by equal orders placed in markets south of the equator; for in this way the opposing seasonal variations in length of night and demand for electrical appliances maintained for them a perfect regularity of output and hence full employment all the year round. Moreover, wherever the necessary skilled labour is very limited in supply or where the high cost of capital equipment makes continual use an urgent policy, it is usually very much to the advantage of the industry concerned deliberately to regularize employment throughout the whole year.

The most general proposal for dealing with seasonal fluctuations, exclusively calls for the

dovetailing together of various seasonal industries which fall at different times of the year. In this way workers who now draw remuneration during their busy season inadequate to tide them over their idle off-season would be provided with subsidiary occupations. The agricultural pioneer in Northern Ontario spends half of the year on the cultivation and improvement of his farm, but in the winter he seeks a job with a lumber-gang or in a backwoods pulp-mill in order to maintain himself and his family. Such alternation of employment is made without supervision, and is merely the product of necessity and opportunity. It is hoped by many economists that the tremendous annual distress produced, by seasonal fluctuations, among industrial workers in the congested modern state may be deliberately dealt with in a similar fashion. A well-developed system of labour exchanges could conceivably so eliminate the maladjustments in the machinery of modern industry as to present unemployed seasonal workers with jobs in some other seasonal industry which reached its maximum activity during the eclipse of their own. It should be noted, however, that mere mobility of labour, so procured, would not be enough; for the seasonal workers thus transferred would need to show some degree of adaptability to their secondary employment, and this would, in many cases, necessitate the introduction of industrial training. This compensatory adjustment of seasonal employment would, moreover, displace in the trades involved a large number of the less capable workers employed in each; and the

treatment of these new completely unemployed men would constitute an additional problem for the State.

One of the most pernicious features of seasonal fluctuations in the demand for labour is the tendency which they produce for each industry, and often for each factory, to build up a reserve of workers large enough to supply all its needs during the busiest season, and hence lying unemployed or half-employed during slacker times. This phenomenon, first detected and analysed in comparatively recent times by Sir William Beveridge, is perhaps the outstanding case where blame may be laid at the door of a faulty mechanism of industry. It seems evident that many employers have deliberately encouraged the formation of these reserves about their businesses. Further, the whole system of casual employment is full of demoralizing possibilities; and lack of organization in the labour market merely confirms these evil tendencies.

The etiology of the disease may be summed up briefly. The existence of a labour reserve in any industry normally issues from (1) fluctuations in the business of individual firms and of the industry as a whole, (2) adoption of the reserve system by individual employers without any organization of the labour market for the industry as a whole, (3) the immobility, through lack of supervision, of labour generally throughout the country, (4) a system of casual or short-time engagements, and (5) the prevalence of chance in the hiring of workers. Any one of these conditions will tend to develop a "stagnant pool" of labour. The conjunctive action of

several or all of them will produce the evil in its most aggravated and lamentable forms.

The fluctuations in the demand for labour will tend to gather about an industry all those workers who might conceivably find employment during a time of maximum activity. If each separate employer maintains his own reserve and does not co-operate with his fellow employers within the industry, the total number of men carried in reserve by the industry will be much greater than would be the case were perfect mobility of labour to exist between all the factories concerned. For the fluctuations in demand in all these factories do not occur simultaneously, and if a common centre of employment were established, a reserve of 1,000 men might suffice for the industry, instead of, say, separate reserves of 300 each maintained by a dozen different employers, i.e. some 3,600 in all. In this hypothetical case, 2,600 under-employed men would be extruded from the industry and virtually steady work assured to the remainder.

In employments, such as wharferage and dock service, where men are hired by the day and may be called on often enough to hold them to that industry in the hope of getting work but not often enough to ensure a living wage, the situation is superlatively vicious. Here there is a stark struggle for existence between starved and desperate men, whose numbers are greatly in excess of the jobs which are essential to their very survival. The degrading reaction upon character is intense; and when all goes by chance, and integrity is no help but almost a

hindrance in the cruel competition, the forces of demoralization reach their climax. Human virtue struggles impotently in the maelstrom and the descent is easy into the gulfs of pauperism and unemployability.

The treatment of labour reserves calls only for a reform of industrial methods. So long as seasonality exists in the world of industry—and it seems hard to conceive of its entire elimination—labour reserves will be necessary in many industries. The problem, therefore, is not to abolish reserves entirely, but rather so to organize the labour market that the system of reserves will cause no distress.

The first prescription would be the creation of fluidity of labour by means of national labour exchanges. The exchange system has been so widely accepted and put into practice that its advantages need little exposition. It may merely be noted that its highest usefulness is found in coping with seasonality and the backwaters of the under-employed. These men, best represented by the huge army of floating labour, numbering several millions, in the United States of America, are both ignorant of the needs of the labour market and unable to negotiate with employers otherwise than by personal application at different centres. This blind and futile labour-hawking, which demoralizes the very abilities of which it seeks to dispose, is largely rendered unnecessary by the labour exchanges.

The second step in coping with under-employment is the adoption of a strict policy of detasualization. Each business, instead of

being suspended like a nucleus-crystal in its own large beaker of labour solution, should seek its augmentation in the common bath of the national exchanges. Employers should be forced by law to hire all men for irregular jobs from the national system. This is not illegitimate interference with the prerogatives of employers but merely one of many cases where the State must impose regulations for the salvation of its citizens.

Granted such compulsory maintenance of a common source of casual labour, steps could be taken to weed out the inefficient and unemployables and to concentrate all the casual employment on a limited number of efficient men. In this way the best men of the reserve, instead of rusting in idleness half their time, would experience almost continuous employment; while the unfit and demoralized would be cast out, with great benefit to industry.

This mass of displaced workers would, however, constitute a very serious problem for the State. It seems evident that the elimination of under-employment would reveal a very considerable excess population, which, under the selective action of the exchanges, would represent precisely those individuals who are of no earthly use in any trade.

Emigration is often suggested as a means of handling such a surplus. New countries, such as Canada and Australia, are, it is said, clamouring for population, especially for people of races most akin to their own. The Northwest Provinces of Canada will ultimately support between 40,000,000 and 50,000,000 people and



the demand for immigrants was seldom so insistent as at present. The very solvency of the national railway system depends on a speedy development of the country. But those who are most sanguine over emigration as a cure for a plethora of population in an industrial State like Great Britain should remember that Canada and Australia want farmers and not industrial workers. They have no place at all for mechanics from the Clyde, artisans from the Mersey, and clerks from London Town. Those people hate the country and country life, and it is a question whether they can be transmuted into agriculturists in less than two generations. And when we remember that those displaced by a process of decasualization are the least fit and efficient in the nation, misgivings begin to thicken. Pioneer farming calls for far more hard work and adaptability than farm work in an older country, and these are the very qualities which are most obviously lacking in the people whom we are considering. Careful training at Government expense would no doubt make some tolerably useful but there are very many whom worthless heredity and bad environment have placed beyond all hope of reclamation.

Some could no doubt be placed on the land at home after similar training, but it would be in the more congenial field of industry that we should look for a greater degree of absorption. This could perhaps be facilitated (1) by the reduction of boy and girl labour (by keeping them at school until a later age, as outlined in the Fisher Education Act), and (2) by withdrawing from industry the mothers of young children,

paying them adequate mothers' pensions for their more important work of attending to the nurture of the citizens of to-morrow. In these ways openings would be made for the absorption of a very considerable part of the offscourings of decasualization, provided that some measure of industrial training were first imposed.

But even allowing for re-establishment of some through emigration as farm labour and through reorganization of the home industrial market, there would remain the thick dregs of the unfit and intolerably bad, the drones and the wastrels, the progeny of the nation's undesirables, who have been permitted to spawn recklessly for generations at the direct expense of their fellow-citizens. Discussion of this element will be taken up a little later in connection with the "subjective" phases of unemployment.

So much for seasonal fluctuations and the reserves of labour which find in seasonality the prime cause of their evil existence.

Much more far-reaching in their effects and much less amenable to curative treatment are those wider fluctuations of business prosperity and depression to which the observations of the past century assigned approximately decennial cycles of activity. Such periods are made up of a steady crescendo of prices, wages and trade, followed by a ruinous slump, general business stagnation and unemployment, and a long dull season of convalescence extending over three or four years.

As to the causes of this mysterious periodicity there is no general agreement. Nearly every

eminent economist has an erudite theory of his own, differing from that of every other economist.

Professor Pigou of Cambridge reasons that the "aggregate wage-fund" which society possesses to devote to the purchase of labour depends chiefly on the real income of society and the optimism of the business world; and these factors are in turn very largely dependent on variations in the bounty of Nature. An unusually good harvest is often the starting-point for a trade boom; while the failure of important crops throughout the world may have disastrous reactions, both economic and psychological, and precipitate panic and depression everywhere. A corresponding decennial periodicity in the development of sun-spots and an easy deduction of the influence of these solar phenomena on terrestrial meteorology and harvest conditions make Pigou willing to give considerable credence to Jevons' association of cyclical fluctuations with solar changes. He also points out that a nation which, like Great Britain, concentrates on the manufacture of instrumental goods (machinery, ships, rolling stock, plant, etc.), is liable to more crushing burdens of unemployment than those in which industry and agriculture are better balanced. The reasons for this are obvious. First, investments are the very material of fluctuations and these capital goods the normal object of investment. Secondly, the nature of capital goods and the large stock of them in existence relative to the annual output makes it possible for industries, during times of depression, to restrict their demands for such goods

almost to zero, thus bringing their manufacturers to a dead stop. With consumption goods, such as food, and to a lesser extent clothing, this is not so. A community may be able to do without new machinery for two or three years, but it must eat and maintain a certain minimum adequacy of vesture.

The analysis of Mr. J. A. Hobson is rather different. The direct cause of cyclical depression now appears as underconsumption on the part of the community. It is an economic mistake for more of the national income to be saved than will serve to maintain the full machinery of production and pay for the consumable output during the calculable future. There is, however, excessive inequality in the distribution of wealth in the State and the consequent surplus incomes of the wealthy are invested more and more in the means of production. These capital goods become developed increasingly out of proportion to the market, and trade is glutted with the excessive output. Then prices tumble, a reduction in stockholders' incomes reduces the mischievous savings, production falls off, the congestion of the market is gradually dissolved away, normality returns, and the trade cycle has come full circle. Thus the ultimate cause of unemployment is to be ascribed to surplus incomes.

Sir William Beveridge, by a similar but by no means identical course of reckoning, blames the glut of output and subsequent depression on the modern competitive system of industry. Each producer tries to seize as much of the market as he can, and after some years of more

and more frantic competition the combined output of all the producers swamps the market and causes congestion, depression, and general unemployment. If this is the case, one might suppose that the remarkable extent to which various industries have become trustified within recent years would lessen appreciably the possibility and extent of gluts and depressions; but we have as yet no adequate data on this point. The explanations of Beveridge and Hobson both appear, also, to underestimate the significance of the scope of trade depressions, for they tend to affect all industries and all countries at once, and it seems questionable whether the processes of overcapitalization would take simultaneous effect in all the trades of all the world.

Many other theories have been expounded. Henry George and the single tax school blamed private property in land and saw the machinations of landlords and real estate exploiters overreach themselves from time to time and drag down the business world in their temporary collapse. Others have pointed an accusing finger at (1) overcapitalization, (2) overproduction of capital goods, (3) advancing costs of capital equipment, (4) diminishing prospects of profit from investment, (5) a disharmony between capitalization and prospective profits, (6) a more rapid rise in wages than in industrial productivity, (7) disharmonic rhythms of production in Nature and in industry, (8) an imperfect adjustment of money rates to price fluctuations, and (9) discrepant variations in the prices of capital goods and consumption goods.

In the face of such widely varying opinions

amongst trained economists we may perhaps safely assume that the true cause of cyclical fluctuations is not single and simple but rather exceedingly complex. Professor W. C. Mitchell, whose book *Business Cycles* is perhaps the most exhaustive analysis of the problem, adopts this view and regards the cycle as the progressive interaction of many factors, both psychological and economic. A cautious expansion in business following a depression is gradually accelerated because costs at first lag behind prices, prospects of profits are good, investment is stimulated, and confidence prevails. In time, however, costs, especially in wages, begin to overtake prices. The latter cannot be raised indefinitely in some industries, and the prospect of declining profits weakens credit. Investors press for the liquidation of credits, the pressure is passed on from industry to industry, panic sets in, and the business world collapses with a crash. Unemployment is a direct consequence of that disaster.

The possible methods of combating the industrial fluctuations and their consequences are as various as the analyses of their causes, and the appropriateness of some of them depends directly on the validity of the antecedent analysis. The measures commonly proposed are of two types, preventive and palliative. The former attempt to abolish or to reduce the magnitude of the fluctuations themselves; the latter seek to relieve the resultant unemployment and distress.

The few possible preventive measures consist of corrective control over the machinery of modern finance. All the influences making for unnatural expansion should be held strictly in

check. "Blue Sky" legislation should be rigidly enforced to prevent fraudulent stock promoters and real estate companies from engineering booms. Banks need to leave the illegitimate speculator in outer darkness, and likewise to maintain a consistently firm attitude against rapid business expansion. It is no easy matter for bank directorates to clap on the brakes of a higher bank rate at a time when business is spinning forward into higher and higher prices and profits; but such chastening benevolence is essential if industry is to continue at a safe pace along the road of normality and not lurch headlong over into the quagmire. Further, the dangerous interdependence in times of crisis of the members of a trade system buoyed up on airy credit—"like little wanton boys that swim on bladders"—suggests the desirability of increasing the amount of business done on a cash basis and reducing the average length of credits. Still another possibility is the currency stabilization scheme of Professor Irving Fisher whereby the standard coin would be made virtually a token coin and the mint price of bullion systematically regulated according to the variations of the index number of general prices. In this way it would be possible to reduce to some extent the present premium on booms—a premium due to the fact that in a time of rising prices the real value of the currency is decreasing and business men pay actually less than the nominal interest due on their loans from the banks. It is questionable, however, whether any or all of these measures could ever completely eliminate trade depressions.

Of the palliative measures which have been advanced for the alleviation of the effects of cyclical depressions, the most important and most familiar is unemployment insurance. Some degree of unemployment seems inevitable in the modern industrial world, with its constant dynamic maladjustment, and some form of provision for workers is therefore a logical necessity, especially for manual labourers whose employment is more inherently uncertain than that of commercial and professional workers. Individual wages are usually too small to enable the wage-earner to set aside enough to make adequate provision for times of unemployment, and furthermore the risks in individual cases are seldom predictable.

For an industrial group the case is conceivably indifferent. The risks of individuals may not admit of calculation, nor may those of all the workers of a nation taken together; but sufficient data are available in a single trade to compute with comparative exactness the unemployment risks in that trade. There would, of course, be broad margins of error from year to year, but it would still be feasible to work out the amount of the premium necessary for funding the trade's risks. In this way the uncertainty which constitutes such a demoralizing menace for many members of the group would be shouldered by the group as a whole.

Two serious objections have to be faced, however. First the risks may fall consistently on a small minority of unfit and useless members of the group, thus making them parasites on the industry of their efficient fellow-workmen;



and secondly, the possibility of fraud must be eliminated.

In the former instance, it seems undeniable, from trade-union experience, that the burden of unemployment does fall far more heavily on the inefficient and shiftless, and that the same men exhaust their full benefit year after year while others seldom draw on the insurance funds at all. In voluntary insurance systems, as under trade unions, the parasites tend, however, to be thrown out in time; and in a State system, a policy of decasualization coupled with selective employment of the fit and segregation of the unfit might reduce the insurance burden on the industry.

The second unfortunate possibility, that of fraud, would invalidate the whole insurance system. If large numbers of insured workers were able to malingering successfully and so to prey voluntarily on their fellows, as the hopelessly unfit prey involuntarily, the situation would become intolerable. In an unofficial scheme, the working members of the group would be keenly interested in seeing that no man lay idle while jobs were available, and pressure of opinion would soon put the screw on the member who, when openings were known, protested that he could not find employment. The same results can be attained in a national plan of insurance by close co-operation between the administrators of the insurance system and those of a national exchange system. When the exchanges have cognizance of all vacancies and the idle worker must apply to them whenever he seeks unemployment benefits, the chances of malingering are almost abolished.

Many different programs of insurance have been practised within the last two decades. The earliest and commonest form was that of voluntary co-operation, on the part of the workmen themselves, operating, without State assistance or supervision. There are those who hold that this is the ideal method, inasmuch as the pressure of opinion in such organizations is the healthiest guarantee against fraud. It is hard to see, however, wherein the check is superior to the comprehensive and organized watchfulness of the labour exchanges.

The existing English system was instituted by the National Insurance Act of 1911. Provision was then made for compulsory insurance in certain industries; and the necessary funds were to be supplied jointly by the workers, the employers, and the State. The Government thus combined the somewhat antithetical methods of subsidy and compulsion. Every six weeks of premium payments entitled the workman to one week of unemployment benefit, with the reservation that no one was to receive more than twenty-two weeks of unemployment benefit in any one year. For the greater part of the time of operation, the benefit per week was fifteen shillings for each man entitled to relief and twelve shillings for each woman. The number of workers registered under the British unemployment scheme is twelve million, of whom eight million were added to its rolls in August 1920.

Of the value of such insurance there is no longer the slightest doubt. The last eighteen months have seen the greatest plague of un-

employment since the depression that followed the Napoleonic Wars, yet the amount of visible distress has been remarkably small in comparison with that of earlier epochs of depression; and it seems indisputable that the credit for this alleviation of the evil is in no small measure due to the system of unemployment insurance. Between September 1920 and October 1921 some £48,000,000 was paid out in insurance benefits to unemployed families in Great Britain. One hardly dares to imagine what conditions would now be like had the depression been met with no more preparation than in 1815.

For the future unemployment insurance of the whole working population of Britain on an adequate scale, a new scheme has been proposed by Mr. B. S. Rowntree. He estimates that annual premium payments of £56,500,000 would be sufficient for the purpose. Of this sum, £37,000,000 ( $2\frac{1}{2}$  per cent. of their total wage bill, or 65·5 per cent. of the premium requirements) would be paid by the employers; £15,000,000 (1 per cent. of their wages, or 25·5 per cent. of the premium requirements) would come from the workers; and £4,500,000 (or 8 per cent. of the premium requirements) would be advanced by the State. Mr. Rowntree calculates that the benefits made possible by such financial arrangements would be 50 per cent. of normal earnings, plus 10 per cent. for a dependent wife, plus 5 per cent. more for each dependent child up to a maximum of three, thus making possible the payment of 75 per cent. of normal wages (to a married man with three dependent children) during the entire

period of his unemployment. Such a system would, if its actuarial basis is correct, banish for ever the wolf of uncertainty that prowls around the dooryard of every worker in Britain. The cost—about fifty-seven millions—seems high, but relative to the annual trade turnover in a normal year it is not overwhelming. The income of the United Kingdom in 1914 had been estimated by Sir Josiah Stamp at £2,250,000,000, of which sum the proposed insurance levy would amount to  $2\frac{1}{2}$  per cent.; though since much of this national income came from foreign investments the actual burden on British industry would doubtless be somewhat heavier still.

An important feature of the Rowntree scheme is its prospective action in decasualizing industry. The system would be instituted according to trades, and those who handle casual labour would be forced to contribute a higher premium in order to meet the exigencies of a greater risk. The influence of this provision on the wage-bill would make it profitable for employers to regularize their work as far as possible. It should be remembered, however, that before such an Insurance Act as Mr. Rowntree suggests, with its universal scope and formidable expense, can be instituted, the trade of the country must get back to normality. We must climb out of the present deep valley before we can attempt to bridge the next one. Such a large proportion of the population is entirely out of work that funds for the financing of their insurance benefits would have to be advanced chiefly out of taxes, and the system would hardly be recognizable as insurance.

Until, moreover, universal and all-comprehensive insurance systems are worked out, the destitution consequent on unemployment will require more direct assistance. Relief has been, and probably long will be, necessary for those able-bodied workers to whom no insurance benefit is due and for whom no jobs can be found by the employment exchanges. Some will be industrially fit and will require only temporary assistance coupled with work in some industrial or agricultural institution. Others there will be who are inefficient workmen or castaways from some outworn trade, and as such will require stringent training to prepare them for re-entry into industry. Still others will be unemployables, beyond reclamation in any industry, and for these confinement in labour colonies under strict discipline would seem the only remedy. The general aim of relief programs has been to maintain the efficiency of the good workmen, and where possible, to produce new industrial quality in the poor workman. Segregation of the hopeless remainder serves merely to remove a nuisance from the industrial system.

In actual practice, the institution of public works in which men, especially of the first of the above categories, can be employed, is no easy matter and the outcome is all too often a waste of money and individual efficiency. Unemployment, when it follows a trade depression, is usually too widespread to make relief works at all adequate. In the autumn of 1921, for example, the British Unemployment Grants Committee approved of 3,557 schemes for local relief works, representing a total cost of over

£25,000,000; yet the work thus provided represented the employment of only 100,000 men (one-seventeenth of the total number unemployed) for ten months each. Moreover, the employment of skilled artisans at such relief works as road-building tends to spoil their efficiency as artisans, and, because the provision of artificial employment at low wages produces perfunctory work, is ruinous both to cost and to habits of industry.

These two methods then—insurance and relief—are the two chief palliatives proposed for coping with unemployment. There are also a great number of partial remedies, each one of which might contribute to the general reduction of fluctuations in employment or of the resultant distress.

One of these is for Governments to establish industries for the temporary absorption of the unemployed. These could not be industries in the ordinary sense. An increase, for example, in the number of factories of a general type in a country would simply result in further disorganization of trade, for the increase would be based on arbitrary action, regardless of the actual demands of the market. In such industries as forestry and land reclamation, however, variations in the number of men employed need have no influence on the trade of the country. A general program of afforestation might be carried on in saltatory fashion, adjusting the annual amount of work done to the amounts of unemployment announced by the national labour exchanges. This temporary employment would of course be confined to men of appropriate

quality and conducted, not as relief work, but as a strict business proposition at normal rates of wages. Only a small class of the working population would be thus benefited, but their removal from the ranks of the unemployed would certainly help to better the general situation. The value of such work, too, is very real. In Great Britain, the Royal Commission on Afforestation found over eight million acres suitable for forest-planting; and even in a country so new as Canada the Government is coming to realize the urgent necessity of restoring and maintaining the forest wealth which has been recklessly slashed and burned away from vast non-arable areas. Grave objection has been made to this general proposal on the ground that large permanent reservoirs of overpaid inefficients would by it be set up at public cost. It has surely been made clear by the history of the past year, however, that such a system may be of value. It should not be regarded as a substitute for a thorough-going organization of the labour market and other broad measures for guarding against unemployment, but we have seen that even a national employment exchange system may lie like a piece of idle machinery during times of depression. Something further is needed, and schemes, such as afforestation, which might with reasonable care be divested of the demoralizing features of relief work proper, are not to be thrown hastily aside. Their influence for good may be modest, but they should not be discarded because they are emollients and not panaceas.

A further proposal, introduced in a fairly

radical form by the Minority Report of the British Poor Law Commission of 1909, is the deliberate attempt to make the demands of the Government for such goods and services as are not required continuously to vary inversely with the public demand in the open market. In prosperous years, a certain percentage of the Government's normal expenditure on printing, telephones, telegraphs, public buildings, and the like, would be postponed, and the actual expenditure made in the lean years when reduction of demand had brought down a blue fog of depression over national commerce. Only certain trades would be directly affected by this manipulated demand, but it might be hoped that the virtual continuity of employment given these trades would tend to produce, through commercial interaction and through maintenance of business morale, some degree of similar continuity in other trades as well. The success of such a system would depend greatly on the mobility of labour in the country and on the efficiency of the labour market organization. If labour fails to flow freely between one occupation or centre and others, the artificial manipulation of governmental demands will only result in building up masses of casually employed labour and so adding to the evil which it seeks to cure. The device might also, in many cases, be an impracticable counsel of perfection. If the municipal engineers of, say, Manchester announce, in times of prosperity, that an immediate extension of the city's waterworks' system is essential to meet with the continual expansion of urban population, it may be difficult



to postpone this work to some hypothetical year of trade depression. One can only indicate conceivable lines of remedial action, and not dogmatize for all cases.

All machinery promoting industrial peace makes a further contribution to the amelioration of unemployment. Few phases of modern life have had so disturbing an influence on the conditions of employment as the strike and the lock-out. The interruptions of work which they involve are hardly to be considered unemployment proper, for the latter presumes a lack of work through no wish of the workman, while the industrial dispute is based on motive. But the reactions and repercussions of industrial strife, not only on the industry concerned but also on other industries and on general trade, are consistently evil. Such strife may usher in hard times. The present depression in Great Britain was precipitated by the great coal strike of the spring of 1921. Virtually every British industry is nourished on coal, and the bitter and somewhat futile struggle resulted in industrial starvation and paralysis. It was a national disaster of the first magnitude, the malign consequences of which are still working themselves out. One cannot say that the present depression was caused by the coal strike. The basic causes were world-wide, much older and greater than the strike, temporarily delayed in their approach but inevitable in their oncoming. The economic conditions of the whole world had already decreed a season of misery but the strike dragged forward the event and added thereto undue bitterness and suffering.

Whatever, therefore, will reduce the amount of industrial warfare in a country will thereby remove causes of disruption and dangers of industrial shipwreck. Of all systems so far attempted, perhaps that in which most hope may be placed is the method of joint industrial councils proposed in Great Britain in 1915 by the Whitley Committee. This Committee reported against any postbellum attempts at compulsory arbitration in labour disputes (after the Australian system) and pinned its faith on free discussion between the disputing parties. It therefore suggested the formation in each industry of a joint national council of workers and employers, whose accredited representatives would have regular meetings and power to discuss any matters whatever relevant to the industry. The council would be on a voluntary basis; it would have no statutory powers; and the effectiveness of its decisions would depend entirely on the good faith of the negotiating parties. For its more localized problems each industry would have, in addition to its national council, district councils and also works' committees in individual firms. The adoption of this system has been slow but steady—advancing from an enrolment of 20 national councils in 1918 to that of 73 at the close of 1921. We must not claim too much for these Whitley councils. They have not solved the problem of industrial peace. But they have given many industries better facilities than ever before for considering the problem of the whole industry, and have set up a permanent machine with regular operations. And as a consequence they

have done much already towards crystallizing the tradition that it is common sense and good business to argue out all questions instead of issuing ultimata from one side or the other. The potentialities of the system may not reach their full development for thirty or forty years yet; but its basis in good faith and mutual understanding must make its pacific influence more and more powerful. The measure of its success will be the measure of a reduction in one of the more important contributory causes of unemployment.

A final proposal for relieving the distress of unemployment would attempt the utmost possible decentralization of urban populations. This plan would not merely encourage city workers to undertake farming as an occupation and so help to restore the lack of equilibrium between town and country which is becoming so dangerous in modern times. It would seek above all to provide urban workers with easily accessible rural homes, together with contiguous plots of arable land suitable for kitchen gardening. Such provision would greatly improve the health of the workers by giving them the opportunity of spare-time work in their own gardens, and so producing cheaply a considerable portion of their food; but in a time of unemployment and distress the relief afforded would be still more obvious and the deterioration due to unproductive idleness would be far less rapid in its onset. The worker who spends the period of his unemployment sweating with spade and hoe in his vegetable patch will return to his regular work much fitter in mind and

body than his fellow-worker who lies idle and fermenting in a slum garret. The very pinch of hunger will be less and the misery of wife and children, far more heartrending to a man than his own distress, will be happily lessened.

The development of the scheme involves three problems: the provision of cheap and rapid transport, as by an efficient electric tramway system radiating out from an industrial centre, in order to bring the worker and the industry closely enough together; the acquisition of sufficient and suitable land in reasonable proximity to such centres; and the securing of capital and labour for the building of houses at moderate expense. Experiments carried out in Belgium before the war would seem to show that under normal circumstances all of these three conditions can be satisfied. In abnormal times the scheme might prove wholly impracticable, for with, say, unnaturally high prices of building materials prevailing, the cost involved would place the utilization of the garden homes far beyond the reach of the population for which they were planned. A relevant example is to be found in the fantastic expense involved in the British housing scheme of 1920-21, expense due as much to the extraordinary cost of labour as to that of materials. To achieve success, a ruralization scheme must be placed on a modest financial basis in a time of normal costs; but granted that condition, the plan is one to which we may look as a practicable measure for improving the health, character, and circumstances of many workers who are now housed

in an evil environment and suffer much needless extra misery in times of worklessness.

Such are the objective causes of unemployment in normal times together with the commoner remedies for them proposed by economists. These causes may be summed up briefly as fluctuations in the demand for labour, aggravated in many instances by an inefficiently organized labour market. There are seasonal fluctuations which tend to create casual employment and unnecessarily large and distressful reserves of labour; and there are cyclical or long-period fluctuations which lay a heavy hand on every country and industry. The former are to be met by decasualization and the dovetailing of seasonal occupations, the latter by financial and commercial measures of prophylaxis and by such palliative measures as insurance, manipulation of governmental demands for goods and services, and relief works, almost all closely dependent on a thorough-going organization of the labour market through a national system of exchanges.

There remain to be considered certain *subjective* causes of unemployment—faults and deficiencies in individuals themselves which leave them workless in times of normal employment or help to determine the incidence of unemployment in periods of depression. For while the trade fluctuations of seasons or cycles lead to unemployment, such unemployment does not affect all men equally. The expert and the industrious are the last to be turned off, while inefficient and lazy workers find it hard to hold their places even in times of industrial expansion.

There is thus a very real sense in which unemployment is at least partially determined by personal factors.

These subjective faults and failings may be summed up under two main headings: First, lack of industrial efficiency or adaptability; and second, unemployability, due to worthless character. The former is a lack of sufficient industrial quality or skill to maintain the worker in the modern working world; the latter is innate or acquired perverseness of character, typical of those undesirables who are a nuisance to industry and to society.

A familiar cause of qualitative maladjustment of an honest worker to labour demands is the introduction of new processes or types of machinery which tend to displace men who had adapted themselves to the older form of the industry but cannot adapt themselves to the new, or who are, under the reorganized conditions of work on a basis of more machinery and fewer hands, found superfluous. It is debatable whether such men need be permanently thrust out of industry; for if the demand for the product of their own reorganized trade be elastic, development on the cheaper basis made possible by the change in methods will probably be such that they can be reabsorbed, and if the demands be inelastic, the public purchasing power released by the change in the one industry will turn to stimulate through demand the growth of more expansive industries, and in these the workmen may hope for absorption. But in either case the hard-won skill which had fitted them for their former occupation is of no further use.

They must be able to adapt themselves to new occupations, perhaps entirely different from all that has gone before, and the requirements are often so severe as to be beyond the unaided fulfilment of the worker.

Viewed from the standpoint of ultimate industrial development, it would seem wholly inadvisable to hold up or interfere with changes in the structure of industry for the sake of preventing this displacement of workers. In the long run the greatest benefit of the greatest number will be served by these changes and our aim should rather be to give displaced workmen every assistance in their attempt to recover a place in the industrial system. An organized labour market is naturally of great importance for such a purpose, but the State should go further and establish free training establishments, under the strictest supervision, in which all workmen capable of benefiting should be given the necessary adaptability to new work.

Happily both the displacements due to industrial changes and the degree of adaptability required for readjustment are in many industries becoming progressively less and less. New machinery now tends to replace older machinery of a similar but more rudimentary type, and the workman turns to new types of machines more easily than did the dispossessed handloom-weaver of a century ago.

A factor which does, however, render such re-entry into industry more difficult is the advance of age. Evidence seems to show that old age is not now a more frequent cause for dismissal than in the past and the length of

the working life seems actually to be increasing. But those who during middle or latter life are displaced from work for other causes find their re-establishment much more difficult than do younger men. In nearly all trades, advanced age is regarded by employers as a handicap in would-be employees; and it seems undeniable that with most men adaptability and initiative wither with age.

Here again a national labour exchange system is of great value. Under wise management such a system would deliberately give preference to older men in filling positions for which they are specially suited. Certainty of subsistence for age is of vital importance to the State and a policy of solicitude rather than of stark selection of efficiency, regardless of age, may be national wisdom. A scheme of old age pensions has a real though indirect bearing on the problems of age and unemployment, and the British Old Age Pension Act of 1908 has helped greatly to lessen misery among the aged during the present depression.

The last and most malign of the causes of industrial inefficiency is the system of employing boys in "blind-alley" jobs, where they receive no instruction fitting them for adult employment, but rather have their appetite for work and their sense of responsibility deadened. This same system turns them loose on the world at maturity, spoiled instead of prepared for life, and then proceeds to put a new succession of boys through the same ruinous process. It is from such occupations that the ranks of the loafers, casuals and unemployables are largely



recruited. They are not merely without training for any adult occupation but have been positively demoralized by a misspent industrial youth.

The very existence of the demand for boy labour seems to indicate a surplus of low-grade labour in an industrial State. In many industries, employers may choose between producing high-grade goods through the steady employment of skilled workmen or producing cheap low-grade goods by hiring a large number of low-grade workers at irregular or seasonal intervals. Their choice will depend on the amount and quality of labour available in the country. Now in modern times the fitter elements in national populations are having small families or none at all, while the largest families are found amongst those who have least efficiency to transmit to their offspring and for the same reason least means for rearing and training them. Accordingly the children of these least fit citizens must be sent out as soon as possible to help support the household by their earnings. Their numbers are great, their need for work urgent, yet their efficiency and capacity for training is the lowest in all the population. With a stream of such would-be labourers pouring steadily into the market, the existence of "blind-alley" employment and of casual employment of boys and of the blind-alley graduate appears as an almost inevitable result of the unregulated pressure of labour supply on demand.

The only practicable measures of prevention lie in the organization of a special market for

boy labour and in the insistence of a modicum of vocational training in the education of every child in the State.

The function of juvenile labour exchanges is obvious. Equally evident is the need for close co-operation between such exchanges and the schools of the country. There is a great field, too, for advisory committees, to assist in directing young people to the occupations for which Nature has best fitted them. Vocational guidance has still to receive recognition as a necessary factor in modern education, but where children, in ignorance of themselves and the world, puzzle and temporize, to the despair of their parents, the experienced adviser comes as a benefactor both to the present training of the children and to their future place in a work-a-day world.

The type of training required as a preparation for industry has been the subject of much dispute. Under the constantly changing conditions of modern work, the teaching of a single trade is to be regarded as insufficient. What is to be sought is, above all, the development of adaptability, especially by giving familiarity with many simple mechanical principles involved in different machines and processes. To include this in a school course, the age of leaving would have to be raised and the earlier full-time training followed by adolescent part-time training, all on a compulsory national basis. The now stultified Fisher Education Act in Great Britain sprang from a realization of these needs, and though it was not framed specifically as a remedy for unemployment its provision would,

if followed, do much to eliminate the untrained and useless blind-alley breed.

There are very real obstacles, however, in the way of such extensive adolescent education. Among the people from whom the boy casual normally comes, his compulsory attendance at school during the greater part of his adolescence may mean that a large family will be on the verge of starvation because deprived of the extra earnings which he would otherwise be contributing to the family exchequer. It might be claimed on the other hand that a thorough decasualization of the industries of a nation would give continuous employment and adequate incomes to the great majority of workers, thus permitting the adolescent education of their children without undue distress. There would still remain, however, a mass of workers of minimum positive, or even of negative, efficiency, who with their dependents, would require special treatment from the State.

In considering this element in the population we pass naturally to the second class of those whose unemployment may be ascribed to subjective causes. These are the unemployables, the haters of work, who live as dirty or violent parasites on the industry of their fellow men. They are the loafers, the tramps, the criminal and neuropathic vagabonds, the thugs, and the female vagrants, unsocial and antisocial in character, an unclean menace to the nation.

The existence of such a class of unemployables may be ascribed partly to a faulty industrial system and partly to worthless heredity.

The former cause is alone recognized by

many Socialist workers, to whom environmental influences are paramount in shaping character and differences of heredity are only a disagreeable myth. Certainly, a degrading system of employment makes its wholesale contributions to the legions of the irredeemable: casual employment and underemployment may soon suck down a worker into the maelstrom of unemployability and a fleet of youthful derelicts from blind-alley occupations lurches continually onward into a like fate. But to regard the faulty system as the whole cause of degeneracy is a self-deluding optimism, believing, because it wishes to believe, that a reorganization of society would cure all evils. We acknowledge the place of good or bad heredity in the case of domestic cattle, reared under identical conditions of nurture, but are loath to admit that one man may be inherently of less civic or industrial worth than another. All men are truly equal in the eyes of absolute justice (if not of all human law), for their very humanity entitles them to such equality. But Nature has imposed on them infinite inequalities of fitness for work and citizenship, and many are so lacking in social qualities as to be unfit for a free share in modern life. Common observation, biological science, and sociological research all bear one another out on this point. Nurture and environment may have a powerful influence in dragging down those who might, under happier auspices, have been a success in life, but there are many others whom no conceivable improvement of circumstances could make profitable members of a modern community. These are the feeble-

mind, the epileptic, the viciously lazy and shiftless, the diseased and the inherently criminal. At many times during the last three centuries have the very dregs of a country like England been supported at public expense and given every opportunity to reproduce their kind up to the limits of a reckless fecundity. With the poor and self-supporting artisan or farmer, prudence sets a strict limit to the size of the family which is to be reared and trained; but with publicly-supported paupers, at many periods of modern history, there have been no limits of any sort to mere animal lust and multiplication, and the sequel has afflicted the country with an ever-increasing plague of useless and inefficient citizens doomed to worthlessness even before their unconsidered births. This is not an arraignment of the poor, for out of mere poverty have risen most of the finest and noblest characters of which our mortal times hold record. It is rather an indictment of those elements in society who, through no fault of their own, but through the uncontrolled reproduction of worthless progenitors, were spawned upon an unhappy world, bringing with them the germs of inevitable evil development, and are to-day passing on that maleficent inheritance to an ever-swelling flood of useless descendants. If the severe competition of primitive life they would have been speedily eliminated by their very unfitness; but in the modern State they have been preserved, often in greater comfort than the hard-working unskilled labourer, and given every chance to increase after their kind.

The first step in dealing with the problem

of the unemployables is so to organize the labour market that the incompetent and unfit will be forced out of industry. Under strict decasualization the unemployable element will for the first time stand revealed as a definite mass of parasitic organisms available for scientific treatment. Their isolation can be made complete by calling for registration at a public labour exchange as a prerequisite to the granting of public assistance in any form; while the issue of transportation to distant jobs by the labour exchanges, in the case of genuine workers, would abolish any excuse for aimless wandering in a presumptive search for work. The number of unemployables which would be marked off by such measures in a country like Great Britain would probably be not far short of one million, who, with their dependents, would call for special disposal and care on the part of the State.

In the meantime other steps would have to be taken to do away with those causes (other than the physical engendering of undesirables) which are continually adding to the number of the unemployables. The stringent reorganization of the labour market, together with decasualization, the abolition of blind-alley employment, and the institution of general industrial training would all contribute to this end.

Then, with the re-creation of the unemployable by industrial causes thus prevented and the present generation of the tribe isolated by society, the treatment of the latter sets in. All should be segregated in forced labour colonies and every attempt made through discipline and

training to restore to profitable fitness all those who are not beyond salvage. Some success might be expected, especially among those whose position is due to the demoralizing effects of a bad industrial system. Men thus regenerated could then be permitted, with reasonable supervision and assistance, to take their places in national industry. The remainder should be maintained in life-long segregation, not as a matter of punishment but for the preservation of society; and for the same profound and fundamental reason they should be prevented, through surgical sterilization, from reproducing their worthless kind. The blessing which would be thus bestowed on a nation, by draining off from its germ-plasm those elements through which dishonesty, intemperance of conduct, violence, laziness, perversion, and all of the most darkly antisocial qualities are inevitably perpetuated in its inheritance, is beyond computation. No single act by a modern State could so improve its hopes of permanence and advancement in the social scale. And contrariwise, no State in which the fit elements restrain their fecundity below the limits necessary to maintain their number and in the meantime permit the riotous breeding of the unfit can escape ultimate futility, the hurrying waters of national life stagnant at last in a miasmatic slough and covered over with the yellow scum of the degenerate.

## CHAPTER III

### INTERNATIONAL LEGISLATION -

A NATION is not only unable to live or to die to itself; it cannot even fully solve its own industrial problems by itself. The lives and fortunes of modern peoples are so inextricably interrelated that all labour issues, including these phases of unemployment just now formally analysed, must also be faced as international problems.

Trade fluctuations, for instance, may have their origin far beyond the borders and control of an individual State. In a closely knit economic world, where many raw materials reach a nation from distant lands and many manufactures are sold in far-off markets, seasonality in these crops and market demands have their assured reaction on the industries of the nation in question. Far more important still is the case of the cyclical depression. It is highly improbable that the most far-reaching and enlightened measures which any modern industrial State could adopt would make it proof against industrial depressions. The sources of these trade collapses are usually international, and the paralysis spreads to every nation and every industry. It would be of no avail to a manufacturing nation like Great Britain to have stabilized her currency



in terms of prices, restricted credit business in favour of cash, and reined industry constantly in by means of a well-chosen 'Bank rate, if all of her foreign customers were to pass into trade eclipse and frantically to cut down their purchases from abroad. Measures directed towards the prevention of cyclical depressions must, to be effective, find adoption in all important industrial nations. An international malady must have a co-operative international remedy.

Similarly, reorganization at public expense of industrial conditions and systems cannot always be accomplished in a national vacuum. Mr. B. S. Rowntree has estimated that an adequate unemployment insurance scheme for Great Britain would cost £56,500,000. This represents a levy of  $2\frac{1}{2}$  per cent. on the total national income, and a burden of perhaps 6 per cent. on the profits of industry proper. It is at least conceivable that in a market where trade competition was very keen and close rivals had made no such provision for their workers, the extra burden carried by Great Britain would bring disaster and worse conditions than those which were to be cured. So, too, with expensive schemes for adolescent education, the training or maintenance of displaced casuals, the creation of a skilled labour exchange personnel, the provision of old age pensions, the subsidizing of emigration, and the ruralization of urban populations—these all represent heavy financial expenditure and, cumulatively, a heavy handicap for the nation which attempts to compete in international trade against such other nations as treat their swarming supplies of labour with no such consideration

and so can produce for export at far less cost. At every turn we find our attempts to solve the problem of national unemployment overshadowed by the existence of other industrial States and by the stark dependence of every highly-developed modern country on international commerce. The complete solution of the unemployment problem lies far beyond isolated action in an individual State.

The general truth that social legislation must transcend national boundaries was realized early in the nineteenth century, but agitation for international co-operation was slow in bearing fruit. It was not until 1881 that the first official plea for international labour legislation was made by the Swiss Federal Council through its diplomatic representatives in London, Paris, Berlin, Rome, Vienna and Brussels. All of the Governments approached gave chilly answers; and nothing was done.

The Swiss Government did not, however, abandon the idea, and in 1885 proposals in support of it were brought forward both in the French Chamber of Deputies and in the German Reichstag. They did not meet with immediate success, but they gave a further impetus to the political movement, which finally issued in a conference in 1890, held, on the invitation of Germany, in Berlin.

This conference opened a new chapter in the history of social progress. Most of the European States now did lip-service, for the first time, to the principle of international legislation, although no combined action resulted from their deliberations. The conference, however, by

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virtue of its educativeness, cut out a channel down which the movement flowed slowly towards practical achievement.

The outcome of a second formal labour conference of the Powers, held at Berne in 1905, was the ratification by most of the civilized world of two Covenants, one prohibiting night-work for women, and the other forbidding the use of white phosphorus in the manufacture of matches. In 1913, still another conference was held at Berne, and resulted in conventions for prohibiting night-work for children and for limiting the hours of work for women and children. This was the sum of all international labour legislation indulged in by Governments prior to the war.

When, however, in 1919, the politicians of the world gathered at Versailles to pretend to build up a new world-peace upon the ruins of the conflict, the principle of international co-operation in social legislation came into its own. In Part XIII, Sections 387 to 427, of the Treaty of Versailles, were incorporated provisions for the establishment of a permanent organization for the promotion of such mutual help in social progress. The ideals set forth and the practical arrangements outlined in this portion of the Treaty were among the very few glimpses of blue sky in that vindictive, Catonian document.

The Preamble to Part XIII stated in part :—  
“ The League of Nations has for its object the establishment of universal peace, and such a peace can be established only if it is based upon social justice. Conditions of labour exist involving such injustice, hardship and privation

to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperilled. An improvement of those conditions is urgently required." Moreover, "the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations who desire to improve the conditions in their own countries."

The Treaty then proceeded to the formation of an "International Labour Organization," consisting of (1) a General Conference of representatives of the States who held membership, (2) an International Labour Office, and (3) a Governing Body of twenty-four specially chosen representatives. This organization, which was specified as one of the forms of activity of the League of Nations, obviously paralleled the League in its formation. The General Conference corresponded to the League Assembly, the Labour Office to the permanent Secretariat, and the Governing Body to the Council.

Each State represented at the General Conference was to be entitled to four delegates, two appointed by the Government, one by the employers' organizations, and one by the workers. The unofficial delegates, who were to have the same powers of discussion and voting as the official Government delegates, constituted a new departure in international State consultation. The Conference was to meet at least once a year.

Of the twenty-four members of the Governing Body, twelve were to be appointed by certain specified Governments (at the present time those of France, Great Britain, Italy, Switzerland, Poland, Canada, Germany, Spain, Belgium,

Denmark, Argentine, and Japan), six by the employers' delegates at the Conference, and six by the workers' delegates.

The International Labour Office was to be established at the seat of the League at Geneva. Its official chief was to be a Director, appointed by the Governing Body. His staff was to be chosen from both sexes and from a variety of nations.

Any proposals agreed upon by a two-thirds vote of the Conference might take the form either of draft recommendations or of draft conventions. These were to be transmitted through the Secretary-General of the League of Nations to the various member-States, and the latter pledged themselves to submit the proposals to the competent legislative authorities in their respective countries within eighteen months at the very most. The smothering of international proposals in reactionary and bureaucratic Foreign Offices was thus provided against for the first time in history. None of the conventions or recommendations agreed upon in the Conference were to become binding upon any nation until ratifying legislation had been passed by its Government to that effect.

But the Labour clauses of the Treaty not only provided for the establishment and procedure of the International Labour Organization; it also proposed an inaugural conference in Washington in 1919, and outlined the agenda which should be dealt with on that occasion. The second item of the agenda was the "Question of preventing or providing against unemployment."

This initial meeting of the Labour Conference was opened on October 29, 1919. Though convened in Washington, in honour of the American idealists who were in part its authors, it was deprived, by party politics, of the presence of the Americans themselves.

A special Committee, under the chairmanship of Max Lazard of France, was appointed to consider the question of unemployment. It was soon realized that two distinct problems were involved: (1) the alleviation of unemployment, which was merely a palliation of the evil, and (2) the prevention of unemployment, which called into question the very foundations of our present economic system.

The latter problem was felt to be so far-reaching and as yet so little understood that it was decided that for the time being and for the purposes of study each nation should at regular intervals furnish the International Labour Office with all available data concerning unemployment. As for palliatives, agreement was reached in the matters of national unemployment insurance, the establishment and co-ordination of free unemployment agencies, and international reciprocity of treatment for migrant workers.

All provisions were embodied in a Convention and in two sets of Recommendations, whose chief stipulations were as follows:—

#### **Convention.**

**ARTICLE I.**—Each member which ratifies this Convention shall communicate to the International Labour Office at intervals as short as possible and not exceeding three months all available information, statistical or otherwise

concerning unemployment, including reports on measures taken or contemplated to combat unemployment. Whenever practicable, the information shall be made available for such communication not later than three months after the end of the period to which it relates.

ARTICLE II.—Each member which ratifies this Convention shall establish a system of free public employment agencies under the control of a central authority. Committees which shall include representatives of employers and workers shall be appointed to advise on matters concerning the carrying on of these agencies. Where both public and private free agencies exist, steps shall be taken to co-ordinate the operations of such agencies on a national scale. The operation of the various national systems shall be co-ordinated by the International Labour Office in agreement with the countries concerned.

ARTICLE III.—The members of the International Labour Organization who ratify this Convention and who have established systems of insurance against unemployment shall, upon terms to be agreed upon between the members concerned, make arrangements whereby workers belonging to one member and working in the territory of another shall be admitted to the same rates of benefit of such insurance as those which obtain for workers belonging to the latter.

ARTICLE VIII.—Each member which ratifies this Convention agrees to bring its provisions into operation not later than July 1, 1921, and to take such action as may be necessary to make those provisions effective.

ARTICLE X.—At least once in ten years the Governing Body of the International Labour Organization shall present to the General Conference a report on the working of this Convention and shall consider the advisability of placing on the agenda of the Conference the question of its revision or modification.

### **Recommendations Concerning Unemployment.**

I. Each member of the I.L.O. should take measures to prohibit the establishment of Employment Agencies which charge fees or work for profit. If such already exist, they should be made to operate under Government

licences only, and steps should be taken to abolish them as soon as possible.

II. The recruiting of workers in one country by another should be permitted only by mutual agreement between the countries concerned, and after consultation with the employers and workers in the industries concerned.

III. Each member should establish an effective system of unemployment insurance, either through a Government system or through a system of Government subventions to associations whose rules provide for the payment of benefits to their unemployed members.

IV. Each member should co-ordinate the execution of all work undertaken under public authority, with a view to reserving such work as far as practicable for periods of unemployment and for districts most affected.

## Recommendation Concerning Reciprocity.

The General Conference recommends that each member of the I.L.O., on conditions of reciprocity and upon terms to be agreed between the countries concerned, admit the foreign workers, together with their families, employed within its territories to the benefit of the laws and regulations for the protection of its own workers, as well as to the rights of lawful organization as enjoyed by its own workers.

The international reforms proposed by this Conference of 1919 applied only to industrials. At the second Conference, opened at Genoa on June 15, 1920, an attempt was made to extend their application, *mutatis mutandis*, to maritime workers.

The difficulties of this undertaking arose chiefly out of the fact that legislation affecting seamen was almost unknown in many countries, and even the most advanced nations had made very meagre provision for their sailors' welfare. However, the representatives of twenty-seven maritime countries who gathered at Genoa entered upon exhaustive discussion, and at



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length succeeded in formulating a number of mutually acceptable precepts.

The question of unemployment was handled by a Recommendation and two Draft Conventions, whose chief provisions were as follows :—

### **Recommendation as to Unemployment Insurance for Seamen.**

The General Conference, with a view to securing the application to seamen of Part III of the Recommendation concerning unemployment adopted at Washington on the 28th of November, 1919, recommends that each member of the I.L.O. should establish for seamen an effective system of insurance against unemployment arising out of shipwreck or any other cause, either by means of Government insurance or by means of Government subventions to industrial organizations whose rules provide for the payment of benefits to their unemployed members.

### **Convention as to Indemnity in Case of Loss of Ship.**

ARTICLE II. In any case of loss or foundering of any vessel, the owner or person with whom the seaman has contracted for service on board the vessel shall pay to each seaman employed thereon an indemnity against unemployment resulting from such loss or foundering. This indemnity shall be paid for the days during which the seaman remains in fact unemployed at the same rate as the wages payable under the contract, but the total indemnity payable under this Convention to any one seaman may be limited to two months' wages.

### **Convention as to Employment Agencies.**

ARTICLE II. The business of finding employment for seamen shall not be carried on by any person, company, or other organization as a commercial enterprise for pecuniary gain, nor shall any fees be charged, directly or indirectly, by any person, company, or other agency for finding employment for seamen on any ship. The law of each country shall provide punishment for any violation of the provisions of this Article.

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**ARTICLE III.** Notwithstanding the provisions of Article II, any person, company, or other agency which has been carrying on the work of finding employment for seamen as a commercial enterprise for pecuniary gain may be permitted to continue temporarily under Government license, provided that such work is carried on under Government inspection and supervision, so as to safeguard the rights of all concerned. Each member which ratifies this Convention agrees to take all practicable measures to abolish the practice of finding employment for seamen as a commercial enterprise for pecuniary gain as soon as possible.

**ARTICLE IV.** Each member which ratifies this Convention agrees that there shall be organized and maintained an efficient and adequate system of public employment offices for finding employment for seamen without charge. Such systems may be organized and maintained either: (1) by a representative association of shipowners and seamen jointly under the control of a central authority, or (2) in the absence of such joint action, by the State itself. The work of all such employment offices shall be administered by persons having practical maritime experience. Where such employment offices of different types exist, steps shall be taken to co-ordinate them on a national basis.

**ARTICLE VI.** In connection with the employment of seamen, freedom of choice of ship shall be assured to seamen and freedom of choice of crew shall be assured to shipowners.

**ARTICLE VIII.** Each member which ratifies this Convention shall take steps to see that the facilities for the employment of seamen provided for in the Convention shall, if necessary by public offices, be available for the seamen of all countries which ratify this convention and in which the industrial conditions are generally the same.

**ARTICLE X.** Each member which ratifies this Convention shall communicate to the International Labour Office all available information, statistical or otherwise, concerning unemployment among seamen and concerning the working of seamen's unemployment agencies. The International Labour Office shall take steps to secure the co-ordination of the various national agencies for finding

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employment for seamen, in agreement with the Governments or organizations concerned in such country.

A third General Conference, which sat at Geneva from October, 25th to November 18, 1921, aimed at extending international labour reform to agricultural workers.

An Agricultural Commission, with Sir A. D. Hall of Great Britain as chairman, was appointed to study the problems involved, and devoted most of its time to the question of unemployment. Consideration of this problem in connection with agricultural labour led to the suggestion of proposals for preventing unemployment rather than to those of a remedial type; and a large number of propositions were examined, ranging from the expropriation of owners whose lands were under-worked to a very mild suggestion that Governments should encourage agriculture.

The Recommendations finally adopted by the Conference emphasized the necessity of Governments examining the possibility of encouraging improved technical methods by which unworked or partially worked land might be brought under full cultivation, of affording transport facilities for the movement of unemployed agricultural workers, of developing supplementary forms of employment in cases of seasonal industries, and of encouraging co-operation by the provision of credit.

The actual Recommendations were as follows :—

### **Recommendations as to Agricultural Employment.**

The General Conference of the I.L.O., considering that the Draft Convention and Recommendations concerning

unemployment adopted at Washington are in practice applicable to agricultural workers, and regarding the special character of unemployment in agriculture, recommends that each member of the I.L.O. shall consider measures for the prevention or provision against unemployment among agricultural workers, suitable to the economic and agricultural conditions of its country, and that it should examine particularly from this point of view the advisability :—

- (1) Of adopting modern technical methods to bring into cultivation land which is at present not worked or only partially developed, but which could by such means be made to yield an adequate return.
- (2) Of encouraging the adoption of improved systems of cultivation and the more extensive use of the land.
- (3) Of providing facilities for settlement on the land.
- (4) Of taking steps to render work of a temporary nature accessible to unemployed by the provision of transport facilities.
- (5) Of devising industries and supplementary forms of employment which would provide occupations for agricultural workers who suffer from seasonal unemployment, provided that steps be taken to ensure that such work be carried on under equitable conditions.
- (6) Of taking steps to encourage the creation of agricultural workers' co-operative societies for the working and purchase or renting of land, and of taking steps to this end to increase agricultural credits, especially in favour of co-operative agricultural associations of land workers established for the purpose of agricultural production.

#### **Recommendation as to Returns.**

The General Conference recommends that each member of the I.L.O. furnish to the International Labour Office a periodical report dealing with the steps taken to give effect to the above Recommendation.

The results of these three Conferences have so far been encouraging. In so far as they

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affected unemployment, they sought to apply to the industrial workers, seamen and farm labourers of all countries such approved measures as unemployment insurance, a sound organization of the labour market, and the encouragement of national agriculture.<sup>1</sup> Their action has been directed, in short, towards the co-operative elimination or palliation of the more obvious maladjustments of our industrial system.

By March 1922, some thirty-eight ratifications had been registered with the Secretary-General of the League of Nations, eighty-four Acts or other measures for the ratification of Conventions had been adopted, by the legislatures of the member-States, and one hundred and seventeen Bills to the same end had been drafted, prepared or introduced. In spite of the inertia shown by such countries as Siam, Liberia, Haiti, Australia and Canada, which have reported virtually nothing since the Washington Conference, two and a half years ago, the dawn of achieved legislation reddens toward a day of real internationalism that may yet be.

## CHAPTER IV.

### A SICK CIVILIZATION

STORMCLOUDS, however, still march like spectres across the eastern horizon. These years which have seen the first concerted steps towards the international amendment of our industrial constitution have also seen the greatest dislocation of human employment since the rise of industrialism ; and it seems increasingly evident that these great masses of idle humanity indicate a perilous sickness in our whole civilization. Unemployment is to-day more than the result of flaws in our industrial machinery ; it is an ominous sign that the complex and unstable fabric of our economic organization has suffered serious damage, and that a wider and more drastic co-operation is demanded if the results are not to be tragic for whole populations.

We are most familiar with the situation in Great Britain, where the creeping paralysis of industry began to manifest itself about September 1920. By June 24, 1921, the country had 2,177,899 officially registered as out of work, and at the end of the year there were still two million totally unemployed and one million on short time. These workers, together with their dependent families, must represent a population of not fewer than eight

million souls who have for long months been helplessly dependent on the provision of industry and the State. This is the situation which still drags on to-day with hardly a break in the clouds.

So black indeed are conditions that it is easy to imagine the affliction purely national, the result, perhaps, of governmental sins of omission and commission. It needs, however, only the hastiest glance abroad to understand that other countries are in more evil case, and that the plague is international in its activities. In September 1921, when the rate of unemployment in British trade unions was 14·8 per cent. and under the Government insurance registration 12·2 per cent., Sweden, a far worse sufferer, had a rate of 26·2 per cent., or approximately twice that in Great Britain. Norway's unemployed comprised 19·1 per cent. of her registered workers. In Denmark, the rate was 16·6 per cent., and this had risen by November to 20·8 per cent. Holland's percentage had ranged from 16·5 in January to 7·3 in August; and Belgium's from 32·3 in May to 17·7 in September. In America, the unemployed in the typically industrial State of Massachusetts totalled 19·1 per cent. in September and 21·2 per cent. in October. Canada, meanwhile, had 8·5 per cent. of unemployment, and Australia 11·4 per cent. Percentages are perhaps less imposing than a direct counting of heads, but here, again, the British case is not uniquely black and imposing; for in the United States some authorities placed the unemployed in September 1921 at no fewer than seven millions. Italy,

a much less industrialized country than Britain, had 494,368 unemployed and 131,167 short-time workers last November, and even little Switzerland had 80,692 unemployed (43 per cent. out of work in the watch trade) and 61,267 on short time. Germany's workless ranged from 800,000 in January 1921 to 190,000 in October 1921, the fluctuations varying with the waves of depreciation or appreciation in the mark. The Polish figure stood at 180,000 for the end of 1921, and that for Austria at 80,000 in March 1922. Only in France were all employed. There, on October 28, 1921, only 16,400 (less than one-twentieth of one per cent. of the entire population) were without work.

The figures quoted are not all issued on comparable bases, but they will suffice to show the wide extent of the world's unemployment. It is a symptom of general impairment in our whole industrial civilization. That complex system of currency, credit, manufacture, transport and trade, by which the world's vast modern populations had been built up into unstable equilibrium, buttressed together in such mutual interdependence as to make deliberate co-operation an urgent need, has instead suffered disastrously from the violence of mad war, mad peace and mad national administration. The structure is tottering wildly, and the unemployed are fragments which have already been hurled to the ground. Unless the world's political leaders will work together for our mutual preservation in this hour of economic emergency, the whole edifice will collapse and all urban



civilization will face, in unemployment, the doom of extinction by famine.

### (a) WAR'S SEQUELÆ

The comprehensive first cause of this present peril is the onslaught made by lunatic nationalism on our economic system in "the war," that colossal struggle, 223 weeks long, through whose destructiveness the cause of human progress has been so badly shattered.

The industrial populations of to-day had been built up by means of a money economy, the accumulation of capital, the superimposition of credit, and the creation of a vast mechanism of transport, communication and production. The human counterpart of this great system was the host of skilled men, of all countries, trades and professions, through whom industrialism functioned.

With all of these factors the war wrought terrible havoc. The most obvious losses were in man-power, for in the fighting forces were killed some twelve million of the fittest and most efficient members of our civilization, and an approximately equal mass of humanity perished through disease, famine and massacre. Add to this the maiming and disabling of many millions more, the stunting of the younger generation, the slackening of birth-rates, and the general loss in national vitality, and we can begin to realize the human losses involved in that vast tragedy.

But in a war waged with modern weapons and under "scientific" conditions, the damage

done to the material fabric of civilization was probably even greater—not that material losses can ever be greater than human losses but because the former, in this particular case, involved disaster for far greater masses of people than the latter.

The destruction of capital was enormous. There is to-day, apart from the United States of America, probably less capital in the world than ever before in modern times. The estimated total pre-war wealth (of all categories) of Great Britain, France, Germany, Russia, Austria-Hungary, Italy and Belgium combined was sixty-seven milliards of pounds, and the estimated total cost of the war to all belligerents was sixty-four milliards of pounds. Virtually the equivalent, therefore, in goods and services, of the entire wealth of these seven nations was thrown headlong into unproductive destruction! And, as if that were not enough, hundreds of millions of pounds have been squandered since the Armistice in mad adventures in the Middle East, in futile campaigns against the Crimson Terror in Russia, and in supporting the misbehaviour of certain of the younger Governments of Europe.

The full effect of all this expenditure did not, however, fall on industrial capital at once, for most of the cost was not met by direct taxation. All of Britain's payments, civil and military, in the fiscal period 1914-1920, totalled £11,259,040,377 while the revenue amounted to only £4,072,716,000. The deficit of £7,186,324,377 was met by loans, and these mean a steady drain, through taxation, on any

individual accumulations of industrial capital far into an indefinite future. In the fiscal year 1913-14, the total British budget was £197,493,000. To-day the country faces a regular annual charge, for National Debt services alone, of £345,000,000. In other words, not only has the slowly gathered capital of the past been pledged and swallowed up in the frantic struggle, but I.O.U.'s have been given for most of the accumulation which may be possible throughout this and the next generation.

In France, the actual expenses of war were less than in Britain but an approximately equal debt was passed on to burden the future, because only 12 per cent. (22 milliards of francs out of 181 milliards) of the expense incurred between August 1, 1914, and April 1, 1919, was raised by direct taxation (compared with 36 per cent. in England) and the balance was made up by rentes perpetuelles, short term bonds, loans from the Bank of France, and foreign loans. Indeed, M. Charles Gide has estimated (Cf. *Economic Journal*, June 1919) that, as the normal expenses of Government during that period would have been 23 milliards of francs, France has handed down "for future consideration" the full amount of her war expenses. However this sum may be dealt with—provided it is handled straightforwardly at all—it must prove a millstone about the neck of industrial development for many a day to come.

Wherever we turn, we find this loss of capital, which leaves the mechanism of industry dead, like a steam-engine without steam and without

sufficient fuel to develop any pressure in the future. The situation is perhaps worse in countries such as Italy and Austria, where native capital was never very great ; but none of the European belligerents has escaped the affliction.

In such a pass it is doubly tragic that capital was never so much needed as it is to-day. The same catastrophe which laid a blighting hand on the world's capital, also crushed and wasted the machinery of production and trade. Apart altogether from the destruction of property in war areas (probably, for example, £500,000,000 in the case of France and £150,000,000 in the case of Belgium) there was grave deterioration in mines and factories ; machinery and buildings, fuel and raw material, were all worn down ; in agriculture, the supplies of live stock, grains and fertilizers were depleted ; and the European transport system, by road and rail, was in a shocking condition. Everywhere immense sums were necessary to restore Europe's industrial machine to a point where it could support its population by means of trade.

France's heaviest losses were in man-power, for over 1,800,000 of her fittest workers fell in battle, probably an equal number were more or less permanently maimed, and the excess of deaths over births in the civil population was 1,273,035. There was also a property loss of £500,000,000 in the ravaged provinces of the north, due not only to the destruction of towns and villages, but also to the ruining of factories and mines. But France is so self-contained a country, broad-based on agriculture, that her most urgent problems are not those of industrial

reconstruction. In finance lies her present anxieties. . .

Belgium suffered similarly from devastation, the loss totalling some £150,000,000. An official survey, however, made in January 1920, stated that the railways had been almost entirely restored, that nearly all of the waterways were in use, that the coal output had virtually reached the pre-war level, that factories were returning to normal and that agriculture and shipping were steadily improving. Most of this splendid recovery lapsed again, however, towards the end of 1920, when the general trade depression set in.

Italy had serious difficulties in the matter of transport, fuel and raw material. Her railways had suffered great damage and 60 per cent. of her shipping had been lost. Her coal imports, on which she is dependent for fuel, were in 1919 some 40 per cent. below the pre-war level. A pre-war supply of 200,000 tons of pig-iron per annum from Alsace-Lorraine was now cut off under the French regime. Raw cotton imports had been reduced by 35 per cent., from 2,000,000 quintals to 1,300,000 quintals. Silkworm cocoons from the Near East had been lacking and silk production had fallen off from 47,020 quintals in 1913-14 to 21,336 quintals in 1919-20, a shrinkage of over 50 per cent. Agriculture had deteriorated greatly, for the importation of chemical fertilizers had dropped from 160,000 tons in 1913 to a scant 15,000 tons in 1916; while the number of domestic cattle had been ruthlessly reduced by the war-time demand for food. Finally, the fishing

industry of the Adriatic had been absolutely wiped out.

The old German and Austrian Empires suffered little from invasions, but there was grave wastage of industry, agriculture and human power. Factories and transport suffered from unrepaired wear and tear; agriculture fell off by 40 per cent. from lack of stock and fertilizers, and battle and blockade inflicted heavy losses on the lives and health of the populations. But their most urgent difficulties are not problems of the war but of the peace, and as such they will be dealt with hereafter.

Farther to the east and south-east, industrial life was less highly developed, but the destruction of the means of production was heavier. Poland was fought over in desperate fashion and faced the peace with gaping deficiencies in rolling stock, coal, raw materials, machinery, fertilizers and seed grain. Jugo-Slavia, Bulgaria, Rumania and Turkey were all badly ravaged and broken. Poor and ill-developed before the war, these countries survived invasion and the stress of war in abject misery.

But in Russia came the greatest breakdown of all. There the expulsion of the demon of Czarist tyranny was followed by the entry of seven worse devils still so that the latter state of that unhappy land was far worse than the first. The damage of war was bad enough; Russia had more casualties than any other belligerent nation, and her farms were left ill-supplied with live stock and field implements, but the social insanity which, as Mr. Hyde in the personality of Dr. Jekyll, suppressed and

superseded intelligence in the direction of affairs, precipitated the most ghastly tragedy of all. A Russian revolution was almost inevitable, as a reaction from the black tyranny which had ground down the workers in the new industrialism of the last generation. Stolypin's iron hand sowed the seeds of the whirlwind; violence was fated to beget greater violence, intensified by the strange mixture of Slav mysticism and Tartar cruelty in the national character. But the reign of terror ushered in on November 7, 1917, by the new Russian Socialist Federal Soviet Republic was more ghastly than any knowledge of the past could have foretold. The French "Terror" of 1793, commonly regarded as one of the greatest splashes of blood on the pages of history, was mere parish-hall melodrama compared with the Soviet executions. Under the Parisian proscriptions only 4,000 heads fell: in Russia, under the Soviet, there were officially murdered, between November 1917 and November 1921, a total of 1,766,118 persons. In this number there were 6,775 professors and schoolmasters and 355,250 other members of the "intelligenza"; and approximately two million others of the intellectual leaders of the nation were hounded out of the country. Such a regime left Russia a quivering body from which the fore-brain had been gouged out by unpractical surgical theorists, thus leaving only the lower neurone system to function. The consequent confirmation and extension of the economic disintegration of the Republic has been all too obvious, and its latest example has been in its contribution to the famine of the past

winter. The main cause of that famine was the heavy confiscation of grain made by the Soviet Government in 1920. This was followed by a refusal on the part of the peasants in 1921 to cultivate any surplus grain; and then came the drought, which precipitated the catastrophe.

Before the war, Russia was the greatest wheat-growing country in the world and exported 400,000,000 bushels for the nourishment and maintenance of Europe. To-day she cannot feed even her own population. Transport, industry, agriculture, intellectual leadership—all have been destroyed. And on their restoration depends the very existence of many of the industrial millions of Western Europe.

For the relation of this breakdown, especially of Central and Eastern Europe, to world trade is direct and obvious. Nowhere else in the world was there in pre-war times so large a mass of humanity with so high a standard of life. The industrial effectiveness and market demand of the 400 millions of Europe, taken in the aggregate, were the central dominating fact of international trade. The population of the British Empire was also about 400 millions, but the purchasing power of the Empire, apart from the British Isles and the Dominions, did not amount to more than that of 60 millions of Europeans. The reason lay in differences in standards of life; for amongst native populations in warm climates needs were small and the effective demand was less than one-fifth of that of the average European. World commerce depended, in short, on the European market.

The vital interest of the small nations—



Switzerland, Holland, Denmark, Norway and Sweden—in Central Europe is plain enough. They must have coal for their industries and markets for their goods, and in both these respects they have been and always will be dependent, for prosperity, on German well-being.

With an imperial power like Great Britain, however, the importance of the European market is, at first sight, less obvious; and there is one school of thought, well represented by the Rt. Hon. Winston Churchill, which would disregard Europe and look for Britain's future in the development of her Colonial and Imperial markets. It is true that throughout the Empire Britain does enjoy great advantages, both psychological and material; but it is easy to exaggerate their importance. The Dominions are largely dependent on the European market for the maintenance of their capacity to import British goods. The breakdown of Europe is almost as serious for India and South Africa as for Britain. Of India's pre-war exports, for example, 23 per cent. went to the United Kingdom, 15 per cent. to the rest of the Empire, and the remaining 62 per cent. chiefly to Europe. By means of this 62 per cent. it paid for its imports from Britain: for 72 per cent. of its imports came from Britain and only 28 per cent. from Europe and the rest of the world. The lack of European capacity to buy India's goods obviously reduces the Indian demand in England. The contribution of political influence to the present unrest in India is infinitesimal compared to that of commercial troubles. India cannot sell its hides to Germany or its tea to

Russia ; the population, which had expanded to serve this export production, is thrust back upon itself and the resulting misery feeds the flames of insurrection.

South Africa, similarly, produced in pre-war times a coarse burry wool which only Germany would handle. In Germany it was made into rough cloth and sold to Russia, in exchange for wheat imports. To-day Russia needs but cannot buy agricultural machinery from Great Britain. Without this machinery, the peasantry cannot raise wheat for export ; and without the wheat, they cannot buy the German cloth. Without the Russian demand, the Germans in turn cannot buy the South African wool. And so South Africa suffers and must cut down its purchases of British goods.

For Britain proper, the present situation is black enough. Exports to Germany, Austria, the Balkans and Russia are almost non-existent and those to Europe as a whole are less than one-half of the pre-war amount. Britain's general export trade to the world for 1921, whether we take it weight for weight or scaled down to pre-war values, was less than 55 per cent. of that of pre-war times ; and her imports were only 75 per cent. of the pre-war quantity.

Worse still, this approximate reduction of trade by one-half is even more true of the world as a whole and has affected the production of raw materials. It is significant that in India the production of jute is down to one-half ; for jute is the cheapest of all textiles, and jute sacking the "brown paper" of world commerce. The fact that only one-half the normal amount

is required for the harvests of the world is an ominous indication of the reduction in the movement of goods. In cotton, rubber, tea and almost all other important commodities, we find the producers, cutting down the scale of production. The world is working commercially at half-rate; and the production of articles necessary for maintaining standards of civilized life are reduced in the same proportion.

The meaning of this to industrial nations like Great Britain is only too evident. World-production has dropped, chiefly through the collapse of Europe, to one-half of normal. The demands for manufactured goods are similarly restricted and the food supplies of the world cut down. The huge populations which have been built up on the basis of an industrial civilization are hence grossly in excess. Eight millions in Great Britain and perhaps thirty millions in European industry as a whole are not provided for by the reduced trade of a broken-down world.

Present unemployment is thus discovered as a phase of economic collapse and as a warning of even greater disaster to come. The chief blame must rest with that mad spirit of nationalism which has crushed our economic system with the mace of war.

#### (b) UNECONOMIC PEACE

Two other vials of calamity, however, have been poured out upon us. One is the evil influence of the various peace treaties by which the Allies have sought to solve Europe's problems on a basis of nationalism and retribu-

tion ; the other is the virtual collapse, in many countries, of the money economy on which modern credit and trade have been based. These two factors are the greatest obstacles to any effective recovery of our industrial civilization, and no plan for economic restoration can hope to succeed which overlooks drastic remedial action on both counts.

The subversive provisions of the peace treaties may be placed in two categories, political and economic.

The political dispositions concerned are those rearrangements of European boundaries which created new States and altered old ones regardless of economic reality. In this it is difficult to condemn the Peace Conference entirely. So strong were the passions and enthusiasms by which, in the autumn of 1918, the patch-work unity of the old Austro-Hungarian Empire was rent in pieces that a new settlement, founded on the principle of nationality, was inevitable. It is easy to talk glibly of the identity of economic interests in such areas ; but we cannot thus easily solve our problems. To the creators of the peace treaties, the strongest and most insistent reality in Europe was the manifestation of national self-consciousness amongst the heterogeneous remnants of the Habsburg dominions. If we deny this reality, in our impatience for a happy issue, we deceive ourselves and the truth is not in us. We recognize the strength of patriotism in ourselves and in our fellow countrymen, and count that man dead of soul to whom his own land makes no emotional appeal ; but we find it simple to disregard the

same powerful motive in men of other lands and races. To have decreed in 1919 the political reunification of those Eastern Mid-European peoples who had just asserted their individual independence would have been sheer futility. Such a settlement could only have been imposed by a fresh war—a war against national liberty, revolting to the world.

Moreover, the present political development is probably following the safest (and certainly the only practicable) order. Forced unity being an impossibility, political independence becomes the natural first step towards the finer synthesis of voluntary co-operation. Though such political independence necessarily carries with it the control of commercial policy, and though friction and mutual reprisals may mar relations for a time, circumstances will ultimately force the willing adoption of co-operative measures based on a clear understanding of common needs.

But when all this has been granted, it remains a deplorable fact that all this fine fervour of nationalist aspiration has been one of the gravest causes of the misery and death which have cursed Eastern Mid-Europe. In a world of primitive, self-sufficient agricultural communities, the imposition of new boundaries would cause little trouble. But when nationalism is let loose upon a semi-industrialized region and inserts territorial barriers to suit the accidental distribution of various races which have thus far shared a common economic life, the results may be perfectly shocking.

Such has been the case in Eastern Mid-Europe. The Habsburg Empire had been

founded on a shabby record of theft and conquest, but it had been welded into an economic unit and its population expanded to limits not previously attainable. The union of agricultural and industrial regions under a single administration made possible such a specialization of function—one area providing most of the food and others most of the manufactures—that fifty-one millions of people were presently dependent on the complex industrial organization. No single part was self-sufficient, and the population had been enabled to swell to its imposing total by means of co-operation and by that alone.

The outburst of nationalism in 1918 shattered this essential organization. The economic unity which had gathered around Vienna was torn apart and partitioned amongst seven different States, two of which were entirely new. Frontiers were marked with barbed-wire fences. Rails were torn up where boundaries joined, and no rolling stock was allowed to pass from one country into another. Similarly on the Danube, all shipping within the boundaries of each State was seized and held; and none might pass on into a neighbouring State under any circumstances whatsoever. This meant that goods, whether shipped by land or water, had to be transhipped at every frontier. The railways which once centred harmoniously on Vienna now encountered barriers in every direction. The great Southern Railway, for example, was now partly Austrian, partly Jugo-Slavian, and partly Italian. Tariffs, and even blockades, sprang up everywhere to aggravate this evil. And as a

last straw, the currency of all the "succession States" was split up. Czecho-Slovakia, for instance, stamped its Austrian kronen, and these at once shifted in value away from those in Austria proper. By July 11, 1922, the former were rated at 180 to the pound sterling and the latter at 107,000 to the pound. These represented currency values in contiguous areas which had once traded with one another with the same freedom as the south of England and the Midlands, or as the State of New York and the State of Pennsylvania. Nationalism manifested itself in implacable hostility amongst all these mutually dependent fragments of the old empire, and States outdid one another in the imposition of trade policies which were, under the circumstances, nothing more nor less than self-mutilation. As a result of this blind frenzy of misdirected patriotism, these well-meaning Governments of Eastern Mid-Europe have succeeded in murdering, through starvation and filth diseases, more of their own subjects and those of their neighbours than they lost in all the years of the war. It is a perfect example of the evil consequences of an attack by nationalism on economic laws.

It has become increasingly evident, too, even to the most fervent nationalists, that while some of the succession States might conceivably become self-supporting, by means of their potential natural resources, there are others which are doomed to slow extinction if left to themselves. The most piteous example is the little mountain republic of Austria, whose six millions of citizens were formerly supported in great part by the

food and raw materials of the rest of the empire. Within its present borders are 30 per cent. of the industrial workers and 20 per cent. of the boiler-surface of the former State, yet it is left with only one-half of 1 per cent. of its former coal deposits. These have been divided almost equally between Poland and Czecho-Slovakia, although in the latter case the native population of the mining area is almost pure German. By the peace treaties, both of these States agreed to furnish Austria with certain limited supplies of coal ; but these provisions are not yet fulfilled. Both have been grievously short of coal themselves, owing to the comparative debility of their mining populations and to economic and political uncertainty ; and it is hardly fair to expect them to bear up strongly under such a burden unaided by the rest of Europe. Meanwhile, most of the factories of Austria are idle because the 14,500,000 tons of coal per annum, which are necessary for their maintenance, have been sadly lacking. Similarly the grain supplies which formerly came from Hungary have been largely cut off as a result of national hostility and reduced production. The result has been the long drawn-out agony of famine, by which the standard of life in Vienna, one of the most illustrious centres of European art and culture, has been reduced to that of a Hindu leper-pit. Foreign Governments and relief societies have given great assistance by means of loans and relief work ; but a permanent settlement of Austria's problems calls for other measures. Credits granted to Austria are minor transfusions of blood to a starved man, and the case demands



the normal nourishment of coal, transport and unfettered trade.\*

Hungary is likewise in a serious state, but there the chief menace to sound economics is the political situation. To be sure, the country is predominantly agricultural and lacks the manufactures which she needs to receive from Austria to restore and maintain her farm production; but present troubles are chiefly political. Hungary has, indeed, been thrown completely off its balance, partly by the collapse of 1918 and the conditions imposed on it by the peace, and partly as a result of the Red Terror under Bela Kun (March-August 1919) and the White Terror which followed under the Archduke Joseph and his agent Friedrich. Since the election of Admiral von Horthy as Regent on March 1, 1920, the Government has enjoyed apparent stability, but there is a rising tide of unrest, which might easily break into actual violence. General opposition to the Government first began to crystallize after the last "Putsch" of the late Emperor Karl, when Herr Gömbös, and what we might call the "Fascisti" elements in the country, became the strongest supporters of Horthy, and by their active intervention defeated the invaders in the skirmish outside Budapest. This same party had been responsible for most of the excesses which began in August 1919, and its identification with the Government serves to fasten the tradition of that savage orgy upon the present administration like the Albatross about the neck of the Ancient Mariner. The temper of the people is becoming steadily more threatening, and attempts are being

made to prevent trouble by a reactionary reduction of the franchise and by the mobilization of troops, ostensibly in order to loot Eastern Austria. Such repressive measures are only storing up evil for the future, and it is to be feared that conditions in Hungary will become very much worse before they finally improve. Such is the history thus far of the national movement which, while dating back to Kossuth and beyond, began its independent course with the uprising of November 16, 1918. Once again the passions aroused have brought grievous ills in their train, and the future will depend on the extent to which a spirit of helpful co-operation with its neighbours is established.

The Serb-Croat-Slovene Kingdom embodies the fullest nationalist aspirations of the Southern Slavs, a settlement gained at Paris largely through the eloquent representations of the patriarchal M. Pasitch. But the consummation has not yet brought satisfaction. Slovenia, Croatia, Dalmatia, Bosnia and Herzegovina have been slow to adjust themselves to government from Belgrade and it has been hinted that the accession of Montenegro was not procured by orthodox means. As a result, the second year of peace found customs barriers still existing between different parts of the State, and normal international trade almost at a standstill. There is a pressing need for real unity, but organization has been lacking, as the lines of trade tend to run north and south instead of east and west.

In point of resources, Jugo-Slavia is rich but undeveloped. Almost half the total area is forest, mainly State-owned. There is copper in

Serbia and magnesite in Bosnia. National agriculture produces a handsome surplus of hides and cereals ; but capital necessary for the development of an economic system fights shy of a country where nationalism is still running amuck. In November 1921, it was stated without denial in the British House of Commons that while Jugo-Slavia owed Britain £22,265,142 plus interest as war advances and £1,857,827 plus interest as reconstruction advances, 90 per cent. of the Budget of this little nation of 14,000,000 people was going to the upkeep of an army of 600,000 men and an unprovoked invasion of Albania was being pushed forward. Instead of settling down to the humdrum work of developing adequate rail transport to the Adriatic (there is now no outlet except narrow-gauge single-track railway to the little ports of Ragusa and Metkovitch) and dissolving out the frictional barriers between the new provinces, nationalism dreamt only of mad aggression.

Rumania, whose population the treaty gift of Bessarabia, Bukovina and Transylvania has raised from 7,000,000 to over 17,000,000, has similar difficulties in establishing any unity of economic organization over the former plain region and the new mountain provinces. Nationalism is not so rampant as in Jugo-Slavia ; and the chief obstacle to reconstruction, apart from war-time destruction, is a conflict between the Government and the Socialist Party. In the older section of Rumania this party has gone over to the Red International, and Governmental measures of repression have been very stern, due in great part to the uneasy proximity of a Soviet Republic

in the Ukraine. The broad wheatlands and the important coal and petroleum industries of Rumania give great promise for the future, but it will be long before the country can assimilate into a single system the incongruous elements thrown together by the peace treaties.

Czecho-Slovakia, the new State created by the union of the old Austrian provinces of Bohemia, Silesia, Moravia and Slovakia, appears so far to be the most successful of the succession States. It began, however, under most favourable auspices. It inherited none of the indemnities charged against the old empire and so faced at least practicable financial problems; it was given, without plebiscite, an important coal area and three million German inhabitants; and it was fortunate in possessing the strong leadership of Professor Masaryk and Dr. Benes. But when all this has been granted, the fact remains that nationality has brought serious problems. Apart from the Germans already referred to, the chief elements in the population are 7,000,000 Czechs and 2,000,000 Slovaks, who live in separate provinces and have very different cultures. Moreover, the railway systems are such that all the important lines in Slovakia run either to Vienna or to Budapest, now in foreign countries, and only very indirect connection exists with the other provinces of the new republic. At a time, too, when simplicity of intercommunication is more than ever necessary for world understanding, we find an eager movement for the exclusive use of the local Slavic languages, which have no world currency whatever. Whatever sentimental appeal such

linguistic ambitions may have, they are a hindrance to 'international trade, a terrible handicap to nations which patriotically insist on them, and a very real danger to international peace. Finally, the nationalist spirit expressed in the foreign policy of the Little Entente (Czecho-Slovakia, Rumania and Jugo-Slavia) threatens the invasion and dismemberment of Hungary, and so maintains that atmosphere of uncertainty in which economic effort withers so quickly in Eastern Mid-Europe.

Poland, which represents the reunion of areas not only from Austria but from Germany and Russia as well, has suffered greatly from nationalist folly. The tasks of reconstruction after the peace treaties were most formidable. Three regions, separated for one hundred and forty years and developed in different systems, had to be unified. Within the new boundaries there were four currencies, three customs tariffs, and three codes of law. German and Russian armies in turn had ravaged the countryside. Capital, machinery, seeds, manure, raw materials, coal, rolling stock—all were lacking. Trade debts and Governmental debts darkened the financial sky. But instead of settling down to the urgent work of peaceful consolidation, the mad rulers of the country began, on April 24, 1920, an unprovoked invasion of Russia, and laid claim to the whole vast region which lies to the west of the Dnieper, an area considerably larger than Poland itself and containing a non-Polish population. If this unjustifiable adventure they were given the fullest assistance of a French military mission of 700 officers, as well

as munitions from England. The climax of the raid was reached with the capture of Kiev on May 8, 1920, but after that came disaster, precipitate retreat, a desperate but successful stand on the outskirts of Poland's very capital, and finally an inconclusive armistice on October 12, 1920. Polish ambition now broke out in a new spot and an attempt was made to seize the Lithuanian province of Vilna. Hostilities were twice interrupted by threats from the League of Nations, but finally a Polish General, Zeligowski, supported by Polish troops, made an unofficial invasion into Vilna, drove out the Lithuanian Government, and defied anyone to remove him. It now appears that, under the potent persuasion of armed force, Vilna is to become a permanent part of Poland.

On paper, this irresponsible State has all the elements necessary for prosperity. It has a population of 27,000,000, occupying an area of 180,000 square miles. It has rich coal deposits (especially since the dubious Upper Silesian award was compromised in its favour), oilfields, the only supply of mineral wax in Europe, marble quarries, salt deposits and extensive iron, copper, lead, sulphur and spelter mines. It is a great wheat country, and its agricultural by-products are among the most extensive in the world. Its forests cover one-quarter of the land, and its timber trade is important. Its textile industry is well developed in the cotton mills and woollen mills of Lodz and other centres. But the follies of national ambition have held back far longer than should have been necessary the reconstruction which was required to revive

and develop industrial life and knit together the disparate sections of a new nation.

But there have been other cases where the map-makers of Paris have abandoned their principle of nationality or "self-determination," and have incited political trouble with far less reason.

Especially is this the case in the Near East. One may, for instance, have little sympathy with Bulgaria, yet one will find it hard to justify those statesmen who professed to settle Balkan problems along "historically established lines of allegiance and nationality" and then proceeded to hand over unmistakably Bulgarian parts of Macedonia to Serbia and Greece (thus cutting off all access to the *Ægean*) and to confirm the Rumanian seizure of the Southern Dobrudja, which is also indubitably Bulgarian. The effect of such obvious unfairness is to stir up bitterness and future trouble, and it is not surprising that Sofia, thronged with the remnants of Wrangel's army, is to-day one of the most bellicose capitals in Europe.

Still more unfortunate, especially in its reaction on the Allies, has been the disposal made of the old Turkish Empire. The sequel to the Treaty of Sèvres (still neither ratified nor successfully revised) has been bad blood between France, Britain and Italy. It has also meant widespread discontent throughout the whole Moslem world. And these political troubles have produced serious reactions, direct and indirect, on the economic situation.

The evil has lain less in the treaty than in the absurd mismanagement of the Near Eastern

situation by the Allies subsequent to the Armistice of October 30, 1918. Turkey's unprovoked entry into the war, and its deliberate massacre of 800,000 Armenians and transportation of 400,000 Armenians and Greeks, made severe peace terms natural and necessary. The internationalizing of the Straits, the setting up of independent Arab States, and the emancipation of non-Turkish populations generally, were inevitable provisions in any settlement.

But downright commercial greediness muddled everything. The exploitation of the Turkish lands was resolved upon, and a Tripartite Agreement, signed by Britain, France and Italy at the same time as the Sèvres Treaty, divided Asia Minor into French and Italian "spheres of influence" (to be managed by military force), while leaving to Britain the island of Cyprus, first seized at the disreputable "Peace with Dishonour" in 1878. Greece had already been asked, in May 1919, to help in the occupation of Turkey, and as a reward was given considerable slices of territory, of which Eastern Thrace and the Smyrnan enclave (apart from the city proper) are not demonstrably Greek. As a result of mutual jealousy, no concerted steps were taken to disarm the Turks; a national movement, headed by Mustapha Kemal Pasha, gathered strength in the mountains of Anatolia until only a puppet administration was left in Constantinople; any imposition of the peace treaty became more and more a matter of serious warfare; and the Allies finally abandoned Greece, the French and Italians even going as far as to make separate treaties with



Kemal at the expense of Greece and Britain. The climax has come with Kemal's summer campaign of 1922, in which, with French equipment and artillerymen, he has driven the Greek armies into the sea, burnt Smyrna, threatened Constantinople, and thrown Allied diplomacy into deadly confusion.

The whole situation is full of evil. Reconstruction is being postponed in a region of great potential wealth. The possibilities of widespread war are made very real. And, worst of all, ill feeling has been fostered between France and England, whose co-operation is so essential to the upbuilding of Europe.

Such are the more flagrant instances where the political provisions of the peace treaties have brought disaster instead of prosperity. In the case of the old Habsburg Empire, we have an economic unit slashed to pieces in the supposed interests of nationalism. In Bulgaria, both the racial and the economic unity of the country have been violated. In Turkey there has been further disregard of nationalism and economics, but it has remained for the jealous and greedy incompetence of the Entente to confound the situation utterly.

The more purely economic provisions of the treaties are at fault chiefly in so far as they affect Germany.

Here again we find a deadlock between the logic of justice and the logic of reality. There can be no doubt that, while our pre-war political systems were full of the danger of war, the specific guilt for the outbreak in 1914 lies with those who governed Germany and Austria at

that time. The accumulated evidence on that point has recently received striking corroboration from various documents found in the archives at Munich. These are confidential dispatches sent during June and July 1914 to the King of Bavaria and to Count von Hertling, his Prime Minister and Minister of Foreign Affairs. Most of them are written by Count Lerchenfeld and Baron von Tuckey, then representatives of Bavaria at Berlin and Vienna; and a few are from Herr Grunelius and Herr von Ritter, their colleagues at St. Petersburg and Paris. All prove that the Entente neither suspected nor desired war, and that the conflict was deliberately launched by the super-officials at Berlin and Vienna. Nor can it be denied that, while the war was concocted in secret by their rulers, the German people joined in the fight with almost unanimous zeal and enthusiasm. But under the circumstances, and having regard to the way in which the war was presented to them, no serious student of social psychology would have expected anything else. Finally, there is, to one travelling in Germany, no obvious sign of repentance or admission of guilt. Part of this may be due to misinformed minds, but the main reason lies in human nature itself, for it is exasperating and repugnant to admit that one has committed a great wrong, and (except with a rare few) natural to seek relief in proving, at least to one's own satisfaction, that one is more sinned against than sinning or even the innocent victim of circumstances. This self-regard of the individual is intensified in the nation, and we find Germany to-day blaming

the war on our pre-war international system in the abstract and brooding over the distress which overtook her in the days which followed the armistice. The most that one can say is that the greater part of the country is to-day strongly against war. This does not, however, apply to Bavaria, where intrigues with the reactionaries are being carried on from more than one foreign capital.

A superficial observer of this whole case might easily conclude that Germany, guilty in supporting its former Government in the war which that Government began, and now all unrepentant, should pay to the uttermost farthing for the havoc wrought. There is much real justice, in principle, in this point of view (although it is questionable to what extent one can indict a whole nation), but the economic settlement reached at Paris sought this end with deliberate disregard for the economic facts of the situation and the resulting treaty terms have been inequitable and impossible.

The most offending economic clauses of the treaty deal with coal and with the payment of reparations.

The loss in production in the coal mines of Northern France, due to the German occupation, is estimated at 20,000,000 tons per annum for the period 1919-24, and at 8,000,000 tons per annum for the period 1924-29. This deficit Germany was, quite justly, required to make good. She was also, however, required to deliver an additional 25,000,000 tons annually for ten years to France, Italy, Belgium and Luxembourg as part of the reparation payments.

These treaty exports therefore amounted roughly to 40,000,000 tons a year for ten years.

What this meant is worth consideration. The maximum pre-war production of coal in Germany, apart from mine consumption, was 172,500,000 tons per annum, of which quantity 139,000,000 tons were required by national industry, and the surplus of 33,500,000 tons was exported. The coal came from the Ruhr, Upper Silesia, the Saar, and, to a very small extent, Alsace-Lorraine. Only the first of these areas now remains German. Alsace-Lorraine was quite properly restored to France. The Saar Basin, with its German population, was quite improperly seized by France—the people for fifteen years and the coal mines absolutely. In Upper Silesia, the plebiscite held in March 1921 yielded a majority of over 60 per cent. for Germany, but France backed Poland in refusing to accept this verdict, and finally forced the issue before the League of Nations in order to get a decision against Germany. The fate of Upper Silesia then became that proposed for the disputed infant brought before King Solomon—it was hacked in two and the part containing the coal mines was given to Poland. Poland had already, in a secret treaty, promised the mines to France. The areas thus lost to Germany produced in 1913 (apart from mine consumption) some 54,500,000 tons out of the annual total of 172,500,000 tons. The theoretical balance of 118,000,000 would need, however, on account of deterioration of plant and personnel, to be written down to nearer 100,000,000 tons; and from this were to be

delivered 40,000,000 tons annually under the treaty. German industry, therefore, which had required 139,000,000 tons of coal in 1913, and with all due allowance for loss of territory, not less than 110,000,000 tons in 1919, was to be left with only 60,000,000 tons. This could mean only one thing—the wholesale destruction of German industry and the starvation of millions of workers. Modern Germany has been built up on her manufacturing industries. There are in Germany fourteen cities of more than 300,000 population and twenty-two cities of more than 200,000; in France, on the other hand, there are only three cities of more than 300,000 and five with over 200,000. Any such onslaught on the German coal supply would threaten the very basis of national existence. It is hard to believe that the coal clauses were not Carthaginian measures, aiming deliberately at the destruction of a prostrate foe.

The immediate result was the horror of famine—like a story continued from blockade times—and then the realization by the Allies that such immoderate terms could not be enforced. By the Spa Conference, in July 1920, and the Paris Conference, in January 1921, the coal deliveries were cut down from 40,000,000 tons a year to from 24,000,000 to 26,400,000 tons a year. Even at this figure French industry has been flooded with more fuel than it can accommodate, while German industry has gone lean and hungry.

The reparation clauses were even more over-reaching and hence even less capable of fulfilment. Their authors drew their authority from an Allied reservation in the Armistice negotia-

tions whereby, while consenting in the main to a "Fourteen Points" peace, they stated their assumption "that compensation will be paid by Germany for all damage done to the civilian population of the Allies and to their property by the aggression of Germany by land, by sea, and from the air."

The bill under this head could in no case be calculated at more than £2,000,000,000 for all the damage done to Allied civilians and their property. Mr. J. M. Keynes, whose analysis of the problem is now an economic classic, placed the bill of France at £800,000,000, that of England at £570,000,000 and that of Belgium at £500,000,000. But the Allied delegates at the Peace Conference were reckless in their demands. The British leaders had just won an election with the promise that they would make Germany pay the cost of the war. The French, out of pure hatred, sought the downright ruin of their enemy. The Allied bill for separation allowances and war pensions, estimated at about £5,000,000,000, was by an amazing piece of casuistry, included in the "damage done to the civilian population." M. Klotz, of France, claimed £15,000,000,000 (more than the total wealth of either France or England) as a minimum figure for the reparation account, but the United States opposed any such figure and the actual amount was left to be determined by a Reparation Commission. The total agreed on at the Paris Conference of January 1921 was, however, £11,300,000,000, to be paid in forty-two annual instalments, plus a 12 per cent. *ad valorem* tax on German

exports for forty-two years. This figure has since, in May 1921, been reduced and consolidated at 138,000 million gold marks (approximately £6,750,000,000).

Such a settlement violated the terms of the Armistice negotiations of 1918. Practically all authorities acknowledge this breach of faith, but many declare it to be without significance. Sir Herbert Stephen, the great international jurist, for instance, has argued that no contract could be said to exist between the Allies and Germany, because a contract can only exist where there is some power to enforce it, and there is no power to enforce an international agreement. In other words, honour and obligations have no meaning whatever among nations, and agreements may be violated without the slightest disgrace, simply because no superior power exists to force one to be honourable. Such a shameful argument would at once absolve Germany from all guilt in tearing up the treaty of Belgian neutrality. The same international conscience which condemns one breach of treaty faith has equal force in other cases. We cannot use the sophistries of the law court to argue away our responsibilities for dishonest reparation claims.

But these reparation demands were not only discreditable; they were likewise wholly impracticable. How was Germany to pay? There was only £50,000,000 in gold in the whole country, and to seize this would demoralize the currency and injure German capacity to pay. Germany's merchant fleet had been confiscated. Her transport system had been weakened by large surrenders of rolling stock. By the

treaties she was stripped of her iron mines, and of three out of four of her coal areas. Her claims on her allies had been declared null and void. The property of her nationals in foreign countries had been confiscated, and compensation forced, strangely enough, from Germany herself. Her own internal debt had been increased through the war by nearly four thousand per cent. She had lost all her colonies (more than six times her own size and capable of enormous development) and important areas in Europe as well, the loss of which—whatever the political justice of the settlement—seriously impaired her ability to make any payments whatever. For all of these confiscations almost negligible credit was given towards the reparation bill. That was a separate and additional account. It seems uncommonly like stripping a man of all his possessions and then demanding his money or his life.

In such a connection it is of interest to consider the estimates made by the late Herr Walter Rathenau, German Minister for Foreign Affairs, of the payments already made (including financial losses sustained) under the Treaty of Versailles. His figures were as follows, given in gold marks :

	Million marks.		
Surrendered mercantile marine .. ..	..	..	5,700
Property abroad .. ..	..	..	11,700
Property in ceded territories .. ..	..	..	6,500
Railways and rolling stock .. ..	..	..	2,000
Saar mines .. ..	..	..	1,100
Coal deliveries to April 1, 1922 .. ..	..	..	1,300
Cash payments to April 1, 1922 .. ..	..	..	3,200
Lost claims on her allies .. ..	..	..	7,000
Certain non-military contributions .. ..	..	..	5,800
West Prussia and Silesia .. ..	..	..	55,000
<b>Total .. ..</b>	..	..	<b>99,300</b>



The Allied reparation claims are at present assessed at 138,000 million gold marks, of which it is estimated (J. M. Keynes) that 74,000 million represents pensions and separation allowances, 30,000 million actual damage done to civilian populations and property, 6,000 million Belgian debt, and the rest sheer inflation. The first item must be eliminated as wholly dishonest, and we are left with a strict claim of 36,000 million marks. It will at once be realized that even if Herr Rathenau's figures, quoted above, be reduced, in the interests of accuracy, *by sixty-three per cent.*, Germany will still already have forfeited financially more than the total legitimate reparation bill of the Allies. She is, however, credited with only 6,500 million gold marks (to March 1, 1922), most of which has gone towards maintaining the Armies of Occupation in fabulous comfort, and France is now girding herself to seize the Ruhr, the only coal area left in Germany, because full payments towards the balance of the unscrupulous 138,000 million are obviously impossible.

How, indeed, could Germany pay any such sum? She has been stripped of everything which could possibly be confiscated, and for this only meagre credit has been given. There remain only certain kinds of wealth which could be transferred into indemnities—gold, goods or exported labour. The gold she has not, and her labour is not wanted. There only remains the possibility of a surplus of exported over imported goods. Now in pre-war times, in the five-year period ending 1913, Germany's exports averaged £74,000,000 annually *less than her*

imports. The only way in which she secured a balance for investment abroad was through the income derived from foreign securities and banking, and from her shipping. All of these have now been taken from her. Even assuming that German industry were capable of normal, pre-war production, there would still be an inevitable trade deficit, unless the national standard of life were reduced. But German industry is not normal. It has been worn down by war and now deprived of its iron and half of its coal. Even as late as February 1922, Germany's exports, for all the nervousness of her foreign competitors, were in actual quantity only one-quarter of pre-war. No reduction in standards of life could wring from such conditions a trade balance sufficiently favourable to pay the reparation bill. The entire working population would be starved to death in the process. The only resource left has been to print vast quantities of paper currency and to use this to buy the foreign credits in which payments must be made. The effects of the policy thus forced upon Germany will be dealt with in the next section.

The reparations demanded from Austria in the Treaty of St. Germain and from Bulgaria in the Treaty of Neuilly are of less importance inasmuch as their inability to pay was more speedily recognized. In Austria, the tragic ruin of the country was too evident for denial. Relief, instead of punishment, had to be prescribed in an effort to redeem the disaster caused by the peace. Bulgaria has been in somewhat better case, but the indemnity of 2,250 million

gold francs (amounting at present to 67,000 million Bulgarian levas) represents more than twenty times the entire currency issue of the little country, and payments have already lapsed three times.

But it is in the case of Germany that the Allies still refuse to see the truth and abandon the enforcement of impossible terms. England and Italy are now ready for a revision of the whole question. Only France, which seeks the destruction of the German people even if Europe should crash in utter ruin, insists on the strictest letter of an evil treaty.

### (c) MONETARY FLUX

The other great factor which has worked against the restoration of European productivity and trade has been the partial breakdown of that money economy on which modern industrialism has been built up. All national currencies have undergone, since 1914, a period of enormous inflation in issue and depreciation in value. In some countries this process has continued up an ever steepening curve towards the void of blank monetary nullity. In others there has followed a reverse movement of currency deflation and appreciation. In all cases there have been the wildest variations both in national prices and in international exchange rates.

The effects on the trade of the world would have been calamitous, even apart from the havoc of war and the maleficence of the peace. Countries with inflating currencies have been given temporary bonuses in trade, but face

ultimate ruin. Those far gone in the process are unable to purchase abroad at all. Acrobatic exchange fluctuations confound all attempts to forecast the immediate prospects of a market. Nations undergoing deflation suffer from a purgatory of bad trade and unemployment. All this disorder in the currencies of the world is one of the outstanding features of our whole world distemper.

It may be convenient to recall for a moment the normal pre-war functionings of international finance.

Nearly all pre-war currencies were on a gold basis. This did not mean, of course, that standard gold coins, such as the sovereign in England and the twenty-mark piece in Germany, were the predominant form of currency. Various substitutes—cheques, bank-notes and Government bills—were used in different countries; but the actual amount of this fiduciary currency bore a strict relation to the amount of gold behind the circulation of the country concerned.

Such national currencies were not legal tender outside of the country of issue. Trade was carried on in goods, while currencies were hardly passed to and fro at all. Instead, international transactions were carried on in terms of "credits" in foreign countries.

A concrete example will help to make this clear.

Mr. Bull, of London, bought 25,000 lire worth of silk from Signor Manzoni of Milan. Mr. Bull had £1,000 in a London bank, and, the current exchange being 25 lire to the pound sterling, he instructed his bank to remit 25,000

lire to the credit of Signor Manzoni at a Milan bank.

Stripped of its complications, this transaction meant, that in effect the £1,000 remained on deposit in the London bank—not in the name of Mr. Bull, but in that of someone in Italy, probably a bank or exchange firm. Normal trade was thus carried on in credits held abroad. An Italian merchant wishing to make a payment to an English firm might simply arrange with some Italian bill-broker who had English funds (i.e. money to his credit in England) to transfer the amount required to his English creditor. The whole performance would be carried through without any shipment of national currency from one country to the other.

Such transactions were greatly facilitated by the relative fixity of the theoretical relationships of the various currencies. Whatever the territoriality of paper money, gold, especially as bullion, was an international commodity; and all the gold currencies had a fixed gold content and hence a fixed ratio to one another. The English sovereign contained 113 grains of gold, equivalent to the amount of gold in \$4.86½ American or Canadian money, in 25.225 French, Belgian or Swiss francs, Spanish pesetas, Italian lire, Greek drachma, Bulgarian levas or Rumanian lei, in 20.43 German marks, in 24.02 Austrian kronen, in 18.159 Danish, Norwegian or Swedish kronen, or in 12.107 Dutch florins. These relative values indicated by the actual amount of gold metal in units of gold currency in each country were taken as the "parity of exchange," i.e. the ratio at which

a citizen of one country could, in order to make a payment in another country, exchange his own national currency for credit in the foreign currency, apart from brokerage charges and slight money market fluctuations. Thus, presuming exchange to be at par, an English merchant wishing to transmit £1,000 to a creditor in Paris, would secure French credit at the rate of 25.225 French francs to the pound.

—That is, apart from transmission expenses, the French creditor would receive 25.225 francs in credit at some Paris bank, or if he desired it, that amount of French currency from the bank. Similarly, if the £1,000 had been remitted at par to Berlin, the German recipient would have received English credit, which he could sell in Germany for German currency at the rate of 20.43 marks to the pound, thus bringing him some 20,430 marks.

In actual practice, however, this parity of gold value was seldom exactly employed. There were constant small fluctuations from day to day and from month to month. The conventional pre-war explanation of the phenomenon was after this fashion :

If all payments had been made by shipping gold, there would have been no variations ; but since such a policy was more expensive and inconvenient than negotiation in bills of exchange, the latter method was regularly adopted. As a result of fluctuations in trade, the demand for international funds varied from time to time. When the demand for French francs was greater than the available supply, the price quoted by the brokers would be higher than 25.22½ francs

to the pound ; if, on the other hand, francs were available in excess of the demand, the rate of exchange would be less than  $25.22\frac{1}{2}$  francs to the pound. In pre-war times, however, with the convertibility of paper currencies into gold and the possibility of exporting gold freely, there were definite limits to these fluctuations ; for once the cost of foreign bills exceeded parity by an amount greater than the cost of shipping gold in payment, gold, which had a fixed international value, was sent.

But this picture of exchange fluctuations being determined by trade balances and kept in order by gold exports is far from being accurate or complete. The export of gold is not at all essential to correct the exchanges, and variations in the latter may have very little to do with favourable or unfavourable balances of trade. These points call for some elucidation before we pass on to consider the present situation.

We must first distinguish between two types of exchange fluctuation : (1) those day to day fluctuations which represent daily variations in the quantity of bills offered plus the general attitude, sanguine or pessimistic, of the commercial world towards the economic situation in the several countries dealt with, and (2) the general rise or fall of exchanges over longer periods of time, which may represent either an adverse trade balance or progressive inflation or deflation of national currency.

The former short-period fluctuations may signify nothing more than variations in the bill offerings from one day to another. There may be constant oscillations above and below par

throughout the year with at the same time no general balance for or against either country ; just as, under the pressure of varying winds the level surface of a lake may appear to move now in this direction and now in that, while the water itself may not be thus transferred at all, but merely agitated by the temporary vertical motion of wave impulse.

The periodic fluctuations, observable only over longer intervals of time, are of much greater importance. If we assume, for the time being, that the condition of the currency is the same in two countries under comparison, and that the internal price levels are the same in both cases, such long-period fluctuations would be due to the fact that one country was steadily buying from the other more than it sold to it, or more accurately, that its general imports were in excess of its general exports, and that foreign funds were thus constantly at a premium. Such a general trend of exchange might not be evident where the quotations of a few days only were considered, for the rise and fall due to the variations in the bills offered on individual days might go first with and then against the general tendency ; just as (to vary our former comparison) the surface of a river with a general flow to southwards might be ruffled on alternate days by north and south winds into waves which would seem in one case to accelerate and in the other to reverse the actual flow of the stream. In other words, an adverse "periodical" trade balance, as distinguished from an adverse daily market balance, would make itself felt throughout the period in question by a general down-



ward trend of exchange, upon which the daily fluctuations would be superimposed.

In pre-war times such adverse balances seldom existed, and the financial system contained in its practices and functioning those factors which (granted the absence of currency inflation) tended to correct the exchanges automatically both from short-time and from long-time fluctuations. International brokers and financiers helped to stabilize rates by the practices of arbitrage (selling on one another so as to make profit out of momentary differences in rates in two centres), straddling (a similar operation, taking advantage of differences in the real value of long-bill and short-bill quotations), forward exchange (which spreads the demand for funds over a longer and therefore stabler period), and finance bills (international non-commercial time bills for the purpose of equalizing demands in the exchange market). Prudent manipulation of the national Bank rate was another regulatory instrument. There was finally that condition inherent in the unfavourable exchange relation whereby the creditor country tended to increase its purchases from the cheaper debtor markets and the debtor country to reduce its imports from the dearer creditor market, and thus, by the actual transfer of resources, to work towards the elimination of the unfavourable rate.

The shipment of gold was a rare expedient, and one seldom used. It would have been impracticable on a universal scale, for there was not enough gold in the world to make all international payments in that clumsy medium; nor was gold essential to the correction of the

exchanges. The export of wealth in any form would have been just as effective ; and for this readjustment of resources the vital requisite was such an exchange level that the outflow to the creditor country would be properly stimulated.

This has all been propounded on the assumption that internal price levels (i.e. the national ratio of goods to the gold value of the national currency) have remained unaltered. It is simply the picture of two nations, one of which imports more than it exports and then cannot escape the penalty of a depreciated exchange rate and a transfer abroad of its own resources until it has consented to live within its means and has handed back in one form or another the full excess of its foreign purchases over its foreign sales.

But this whole conception of exchange variations being determined by market demands and trade balances, though orthodox enough before the war, is now known to be incomplete and inadequate, like a colour-block print with one of the primary colours omitted. From the abnormalities of international finance during the past eight years we have learned that still more fundamental conditions lie behind. We have been taught by the pathology of the exchanges lessons whose importance was not understood in times of comparative health. We now realize that the essential determinant of trade movements themselves is to be found in the price levels existing in the countries concerned, and that these price levels depend primarily on the relative degrees of inflation in the national currencies.

This basic explanation of exchange differences is commonly associated with the name of Professor Gustav Cassel, of the University of Stockholm, who, in the early days of the war, gave the theory its first cogent exposition. Its major premise is the Quantity Theory of Money : the economic truism that if (1) the quantity of currency in a country increases, while the quantity of goods remains the same, or if (2) the quantity of goods decreases, while the quantity of currency remains the same, or if, *a fortiori*, (3) the quantity of currency increases, while the quantity of goods decreases, then the prices of goods in terms of money will rise. Theoretically, the alteration would be in a strict arithmetical ratio, i.e. the doubling of the currency, with the goods supply remaining the same, would result in prices (of goods in terms of money) being doubled also. The precision of this result or the immediacy with which the change takes place may be questioned, and changes in the velocity of currency circulation (equivalent to changes in the quantity of currency in use) may somewhat invalidate the answer ; but the tendency towards such an approximate alteration in prices is, in the face of recent history, undeniable. In brief, the internal price level in a country will depend on the ratio of its currency to its goods, or, roughly, on the extent of its currency inflation.

In the case of two countries trading freely with one another, it is evident that, apart from transport charges, tariffs and trade restrictions, the same commodities will tend to cost the same amount in both countries. For if this is not

the case, international traders will at once move them from the low-priced market to the high-priced market. The greater ratio of goods to currency in the former will thus be lessened, and the lesser ratio of goods to currency in the latter will be increased. In other words, the prices of goods in terms of currency in the two countries will tend to equalize. At the same time the value of the money of the one country in terms of the money of the other will stand in a definite ratio to the amount of goods it can buy; that is, for purposes of exchange, the relative value of the two currencies will depend on their relative domestic purchasing powers. The rate of exchange between the two countries will thus vary as the ratio of their respective price levels; and as these price levels represent the relationship between the quantities of national goods and national currency, it is obvious that the exchange rates will be ultimately determined by the relative quantities of money issued by the two countries and to a less extent by their relative production of goods.

This exchange ratio may often differ widely from the rates quoted on the money market. It is to be regarded not as the probable day to day rate, but as the parity about which the exchange quotations fluctuate. The now familiar name given it by Professor Cassel is the "purchasing-power parity." Given the increase in price levels in two countries, we find this hypothetical parity simply by expressing these price levels as a ratio and then setting the two currencies in the same ratio. Unlike the old gold parity, the purchasing-power parity is not fixed, but moving, for it

must change with every change in the price levels of the countries concerned.

Apart from the unavoidable oscillations of exchange from day to day, there is a common phenomenon of divergence from parity, which cannot, however, be more than mentioned here. Certain countries, such as Sweden, have exchange rates which are consistently higher than their currencies are entitled to on a strict purchasing-power basis. Others, and notably Germany, run steadily far below their real purchasing-power value. The former currencies are over-valued; the latter are faced with continual under-valuation in the international market. The probable chief cause of divergence is the psychological attitude of the international money market—whether hopeful or pessimistic towards the future of the national currencies concerned. If currency buyers, who to-day are as often as not exchange speculators, anticipate further inflation in German money, they will require a depressed purchase rate for marks. If the commercial prosperity of Sweden is over-estimated, buyers will be willing to pay more for Swedish crowns than the price level of the country would warrant. In other words, very sensitive estimates as to the financial condition of a country may react sharply on supply and demand in the exchange market and so force a divergence from the purchasing-power parity. And so long as this market opinion continues to over-estimate or under-estimate the true state of the national currency, that long, will the divergence from parity continue.

Now it must not be imagined that this price-

level parity was either unknown or inoperative in pre-war times. That the inflation of inconvertible paper money would cause its depreciation in the international market had found acceptance in almost every text-book on economics for more than a century past. Prior to 1914, however, the importance of the law passed unnoticed, for most countries had either gold or gold exchange currencies or paper currencies whose inflation was almost negligible. In those days of financial orthodoxy, too, deviations from par were quite minute, and the self-adjustment of the exchanges was so rapid that the shadowy fundamental principles which lay behind were to most eyes invisible.

After 1914, however, these dark powers became suddenly clear—dominant (in Mendelian phrase) instead of recessive. On the one hand, the production of goods in Europe fell off enormously—a performance sufficient in itself to cause a sharp rise of prices. On the other hand, almost all countries put into circulation tremendous quantities of inconvertible paper currency. The result, as will be realized in the light of the principles outlined above, was disastrous and inevitable. The decrease in the quantity of goods and the simultaneous increase, on a large scale, in the quantity of currency caused a sharp rise in prices, i.e. in the value of goods in terms of the inflated currency. This fall in the domestic purchasing power of the national currencies meant that they were similarly written down in purchasing from foreign countries whose inflation was less. That is to say, the exchanges collapsed in the case of

those countries whose money was grossly inflated. . . .

Most people are now quite familiar with the evil effects of these currency policies which have raised prices and torn down exchanges ; but the quantitative aspect of the situation is often not fully grasped. The following table, taken from the Reports of the Brussels Financial Conference, shows the net increases in currency (chiefly inconvertible paper) in twenty-one countries over the period 1913-1919 :—

## CURRENCY CIRCULATION

(Figures represent millions.)

Country.	Unit of Currency.	December, 1913	December, 1919.	Per Cent. Increase.
Argentina .. ..	Peso	777	1,177	151
Belgium .. ..	Franc	1,277	4,817	392
Brazil .. ..	Milreis	897	1,748	195
Chili .. ..	Dollars	150	244	162
Denmark .. ..	Krone	180.3	498.4	276
Finland .. ..	Mark	134.8	1,124	834
France .. ..	Franc	9,894	38,275	387
Germany .. ..	Mark	6,003	50,098	835
Greece .. ..	Drachma	336.9	1,516	452
Holland .. ..	Gulden	404.1	1,218	302
India .. ..	Rupce	3,396	4,829	142
Italy .. ..	Lira	2,899	18,814	649
Japan .. ..	Yen	605	1,697	281
New Zealand ..	Pound	4.7	9.3	198
Norway .. ..	Krone	146.1	461.5	316
Portugal .. ..	Milreis	109.7	409	373
Rumania .. ..	Len	514.0	6,000	1,167
Sweden .. ..	Krona	252.5	782	310
Switzerland ..	Franc	448.2	1,286	287
United Kingdom	Pound	214	536	250
U.S.A. .. ..	Dollar	3,413	5,870	172

The commonest of the many causes of this inflation was the frequent impossibility during the war, and in the disorderly years of peace which followed, of balancing national budgets. The waging of modern warfare is an expensive pastime, so expensive indeed that before 1914 many economists believed that no nation would ever have the insanity to venture on such a struggle. The financial costs exceeded any conceivable ability to pay, and were suspended by the expansion of loans, credits and currencies. With these burdens the world staggered into peace, and then, in many cases, began flinging money into other wild projects—armaments, far-off expeditions and forays, and what not. The almost inevitable deficits in national accounts were then met by the simple expedient of printing currency, with depreciation in the world exchange market as an inevitable consequence.

Against such unprecedented inflation, the ordinary pre-war checks on exchange fluctuation were powerless. To-day, sterling is in a fairly sound condition, although there are nine countries (Canada, China, Egypt, Holland, Japan, Mexico, Sweden, Switzerland and the United States) whose currencies take higher rank in the world market. Others, however, are badly demoralized relative to sterling, as the following table, calculated from the market quotations of May 3, 1922 (and including even three nations, Spain, Denmark, and Norway, which, though neutral, in the late war, were unable fully to withstand the malign international influences of its great economic paroxysms), will indicate:—



Country.	Gold par (to £).	Present Rate.	Per Cent. of Par Value.
Spain .. ..	25·22½ pesetas	28·58	88
Denmark ..	18·159 kroner	20·87	88
Norway ..	18·159 kroner	24·09	76
France ..	25·225 francs	48·72	51·6
Belgium ..	25·225 francs	53·23	47·3
Italy .. ..	25·225 lire	83·75	30·25
Greece ..	25·225 drachmas	100	25·225
Turkey ..	110 piastres	655	16·8
Finland ..	25·225 marks	215	11·7
Czecho-Slovakia	24·02 kronen	230	10·5
Jugo-Slavia ..	25·225 dinars	300	8·41
Portugal ..	4·5 escudos	56·5	8
Rumania ..	25·225 lei	650	3·87
Bulgaria ..	25·225 leva	650	3·87
Germany ..	20·43 marks	1,370	1·5
Hungary ..	24·02 kroner	3,600	0·67
Poland ..	20·43 marks	18,500	0·11
Austria ..	24·02 kronen	37,500	0·064
Russia*	10 roubles	21,000,000	0·0000476

\* April 1, 1922.

The causes of this inflation may be classified as industrial, financial and political. By "industrial" causes I refer to that widespread breakdown of production already dealt with in Section (a). With agriculture in decay, industry worn down, and transport bedevilled, the taxable income of European belligerents was greatly reduced and Governments faced serious deficiencies on the side of revenue. Budget claims had, at the same time, swollen disastrously. The expenses of the war had been largely postponed until the peace. Every belligerent had added greatly to its debts, both internal and external. The increase in internal debts of European combatants in the period 1914-19, converted

into sterling at par rates of exchange, amounts to £28,000,000,000, or more than the total pre-war wealth of Russia, Austria-Hungary, Italy and Spain combined. In most cases one-fifth to one-third of the national expenditure goes to the service of debt. Poland, for instance, had in December, 1921, an internal debt of 251,000 million Polish marks and a foreign debt consisting of 1,480 million gold francs—not a happy prospect for a new nation starting out to shift for itself. But older nations were in worse condition still. Germany, stripped of colonies, shipping and much of her coal and iron, faced debts and reparation claims in excess of her entire pre-war wealth and some nine times the amount of the total annual pre-war income (combined debts and reparation bill about £18,000,000,000; pre-war income, Stamp, after Helfferich, £2,150,000,000). Austria, now a little Alpine republic of six millions, a centre without a periphery, a head without a body, was charged with the entire war debt (though not all of the pre-war debt) and indemnity account of the former empire of fifty-one million people. In the face of shrinking revenue and tumescent expenditure, Finance Ministers were driven back on a single desperate expedient for avoiding bankruptcy. They turned out floods of paper currency, and by so doing plunged more deeply into ruin. Finally, there are the political causes of inflation, namely that unhappy condition which Signor Nitti has called "peaceless Europe"—with the menace of French nationalism in the west, the menace of crimson revolution and its armies in the east, and in

between a molten flux of disharmonious races in Eastern Mid-Europe. In such an international atmosphere, a haze of unreality lies over everything, and mad ambitions, national aspirations, follies and quarrels prevail over the sober solution of economic problems. At the same time, neutral observers, in the international money market, mark down the currencies of those countries where political instability seems to presage a postponement of economic recovery, and the process of external depreciation is further accentuated, with a consequent need for further inflation if the purchase of imports is to be maintained.

It is interesting to note, in passing, the currency situation in Russia, which provides the "horrible example" of the ultimate effect of indefinite inflation. There the printing of infinite quantities of currency was entered upon as a matter of definite policy. Lenin held, quite correctly, that by debauching the currency he could demoralize and overturn what remained of capitalist society in Russia. He aimed at such wild disorder in the value of money that all the ordinary business relations of capitalism would become meaningless. The plan has succeeded all too well, and the Commissars of Moscow, sitting amid the ruin which they have created, are now planning desperately to restore what they have destroyed. On April 1, 1922, the total currency issue outstanding in the Russian Soviet Republic was 71,000,000,000,000 roubles, i.e. 71 millions of millions! In terms of purchasing power, this fantastic sum was equal to 34 million gold roubles. One pre-war gold

rouble was equivalent to 2,100,000 roubles in Lenin's paper issue. It is intriguing to notice, too, how the Soviet Government has injured itself by this practice. It is obvious that by the issue of paper money a State is able to levy surreptitious taxation on its subjects, for by so doing it obtains a command over real resources at the expense of the purchasing power of the currency. If this process is pushed far enough, however, it defeats itself, and according to figures supplied to Mr. J. M. Keynes by Mr. Presbrensky, chief Russian financial expert at the Genoa Conference, this has been clearly demonstrated under Soviet administration. For the amounts that have been extracted by this instrument of taxation have dwindled away concurrently with the increase of the amount of the currency issued on each occasion. If the fresh note issues of each period be translated into terms of their pre-war rouble purchasing power at the date of each issue, we find that the sums obtained by the State shrank from 525 million gold roubles in 1918 to 143 millions in 1921. On January 1, 1922, the total currency issue to date had been 17,000,000,000,000 roubles. In the ensuing three months, the Government more than quadrupled this colossal issue, but obtained from it only 58 millions in purchasing power. And by April 1, 1922, the value of the entire currency of 71,000,000,000,000 paper roubles had sunk to less than 4 million pounds sterling. The depreciation has gone so far that the Russians now realize that even a Soviet State needs a wholesome currency.

Returning, however, to the general exchange

situation in Europe, we must consider yet another prime characteristic of present-day disorder. Many currencies are not only depreciated ; they are hopelessly acrobatic as well. German marks may leap wildly back and forth during the quotations of a single day. Worse still, they may show even wilder excitement from week to week and from month to month. They may have stood at 1,400 to the pound two weeks ago ; have dropped to 1,000 to-day ; and may jump up to 1,300 two weeks hence. It is possible, of course, to pay an exaggerated attention to the quantitative aspects of these fluctuations, for we must remember that they will tend to be larger than they were before the war. The unit of measurement, still misleadingly printed by the newspapers as the old par, is no longer the same. When a country with roughly the same resources, trade and population uses ten times the amount of its pre-war currency, it is obvious that a fluctuation of ten units in the rate is only equivalent to a movement of one unit in the rate before the war. But even when this has been allowed for, we still find currencies whose amplitude of fluctuation is such that a stable basis for trade cannot exist. Even where daily variations are negligible and speculation does not bedevil the market, currency inflation may still be at work and commercial ventures may simply be built on the shifting sands of a moving parity.

What then are the conditions under which exchanges thus cut loose from a common gold standard may be stable enough for healthy trade? We have already seen, in our discussion of the

purchasing-power parity, that the exchange rate between two inconvertible currencies will seek to reach and hold the ratio of the price levels of the respective countries, more particularly the price-levels of those goods and services which can be imported and exported, and hence can take effect in adjusting the exchanges. We have seen, too, that these prices will depend in the long run on the amount of currency in circulation. The economic pre-requisites of successful exchange adjustment would therefore appear to be (a) an adaptation of prices to currency, and then of exchange to price-levels, and (b) in general, a cessation of currency inflation in both countries.

Unfortunately, neither condition is often met with. Nations are driven, by necessity or incompetence, into inflation; and the readjustment to a new level is slow and disorderly. The adverse influences in industry would not be so great if exchanges went quickly to purchasing-power parity and stayed there; but speculation and the psychology of the market take effect long before this reaction of the price level. Hence we have witnessed extreme international trade competition because internal price and wage levels have not corresponded to exchange. In September 1921, German marks exchanged at about 240 to the pound sterling, while the actual purchasing-power parity would have been about 160 to the pound. In order to meet reparation payments by the only means which still survived, great blocks of marks were thrown on the market, and while the external exchange price rose to about 1,200 to the pound, internal price levels

did not keep pace. Foreign customers of Germany were content to pay in sterling or dollars, and the proceeds, when translated into marks, made an almost fabulous sum. For the time being, German traders enjoyed an immense advantage in international commerce; and there was a temporary boom based on supplies held in the country. Then the tendency towards establishing the purchasing-power parity set in, with the fall of exchange and the rise of internal prices, and the boom collapsed. By February 1922, the purchasing-power parity was rapidly being approached and England was actually selling steel in Hamburg. Another exchange slump in April gave Germany a little further breathing space, but its influence has already passed. To-day, German shipyards on the coast are able to obtain American ships' plates at cheaper rates than those from German inland factories, and British coal is being offered in Hamburg at lower prices than that from Rhenish Westphalia. Meanwhile, incessant wage increases are driving German prices ever upwards, and a crisis in the near future is not improbable.

The significance of all this, so far as the exchanges are concerned, is that differences from pre-war parities in currency throughout the world need not disturb international trade at all. It is the sudden fluctuations, setting up, through speculation or the abrupt marketing of huge amounts of freshly printed currency, an exchange ratio which does not correspond with the purchasing-power parity, that cause the mischief. Luckily these variations represent a temporary phase only, and pass with the gradual return of

the purchasing-power parity. Nevertheless, the same violent dislocations can be caused again at any time by the same means—e.g. by Germany throwing wholesale lots of new currency on the market in an effort to get foreign funds with which to make reparation payments.

The effects of some of these influences can be seen in the recent history of the iron and steel industry. Following the Armistice, enormous profits were made by Britain out of the virtual monopoly of the trade enjoyed. The first shock came with the strike of October 1920. This was the turning-point, for by the time the strike was over the Belgian steel companies were in operation, selling a cheap and nasty steel made from scrap. At once all the psychological factors of trade got to work. There was not enough demand to keep both countries going, and prices fell rapidly. By March 1921, prices were down to one-half. Then came the great coal strike, and Britain was eliminated from the race. France, meanwhile, entered the market, and finally Germany began to produce. Competition was very keen for the small market existing. Belgium was shouldered out by France, and France by Germany. Finally, even the German works closed down.

At the beginning of this contest, Belgium and France had their internal price levels below the level of foreign exchange, a circumstance which afforded them a substantial bonus in international trade. When the exchange began coming down, the internal prices did not show corresponding decreases, and the purchasing-power parity was approached. The same was



generally true of Germany as well, though there heavy preliminary depreciation took place before adjustment set in. In all cases, however, the exchange level began in time to correspond with internal prices, the bonus as against the British manufacturer disappeared, and to-day England is selling steel in Belgium and Germany. The purchasing-power parity will now continue to operate in the cause of fair trading until another great block of Government currency is thrown on the market in some country. Then once more will come derangement, a period of unequal competition, and finally a slow readjustment of exchanges to a new stable purchasing-power parity.

It is thus obvious that we do not need a gold basis in order to have exchange stability. At the present day many British industries are trading with France and Belgium on a perfectly stable footing. The general conditions for such stability are (1) a cessation of inflation in the countries concerned, and (2) an internal atmosphere of peace and quietness. Without the former, the purchasing-power parity will shift continually; without the latter, the speculation which feeds on rumour and distrust will confound even a stable parity and impose wild fluctuations.

In the case of Germany, both of these requisites are lacking. Periodic inflation continues because Germany cannot help herself. Impossible payments are demanded. She cannot send goods, for the balance of trade has, on the whole, been steadily against her, and her exports are needed to pay for her current

imports. She cannot hand over gold or foreign investments, for the former is lacking and the latter have been confiscated. She cannot negotiate loans abroad, for no one is willing to lend. The only expedient left is to export paper marks, and each time this happens there follows a cycle of exchange derangement. Further, Germany knows no peace, for the French Nationalist Government, backed by the coal and iron pirates of high finance, continue to threaten the occupation of the Ruhr, the only great industrial area still left to the Reich. Under such circumstances, violent exchange disorder is inevitable.

A phenomenon which forms the exact converse of inflational disturbances appears when a nation attempts to improve the absolute and relative value of its currency through a general reduction of credit and finance. Just as a country which suddenly inflates its money enjoys a temporary advantage in international trade, so one which adopts a policy of deflation must prepare to face a temporary but very serious disadvantage. The usual instrument of restriction is the Bank rate; and its advocates recommend a gradual and careful readjustment. Unfortunately, as soon as the trend of policy is realized by the business world, distrust and panic set in, prices fall violently, and national industry suffers from severe depression until deflation ceases and wages and prices reach stability at their new level.

This process of reverse demoralization (if we may so term it) may be traced in the recent financial history of Great Britain and Sweden.

Deflation has brought the former's wholesale price index down from 333 in May 1920 to 164 in May 1922, and that of the latter from 366 in June 1920 to 172 in December 1921.

The chief elements in the resulting industrial distress are three in number: (1) Wages do not move backwards at the same rate as prices, and may even try to keep on marching straight forward, in defiance of all threats and arguments to the contrary. In Great Britain, for example, prices dropped by 31 per cent. during the nine months following May 1920, but wages actually continued to increase by 9 per cent. Prices may tumble headlong, but wages, which are the chief element in costs of production, must be thrust back step by step, a process often involving barren and embittering industrial warfare. Even in February 1922, when British wholesale prices had dropped more than 50 per cent. below those of the spring of 1920, labour costs were still only 15 per cent. down. (But it must be noted that the obduracy of rentals and retail prices had prevented more than a 32 per cent. decrease in the cost of living.) Nevertheless industry is faced with a calamitous decrease in its returns and no immediate fall in costs, and the inevitable result is a period of depression. (2) The fall in prices leads to a dwindling in value of the stocks of goods on hand in commerce and industry. The last Annual Report of the Dunlop Company, for instance, showed that materials on hand had shrunk in value by eight million pounds, merely through the collapse of prices. It is a serious thing for industry when stocks on hand suddenly lose half their

value. (3) During such a season of deflation, no man dare buy until he knows where he stands with regard to the market. This is especially true of capital goods, for here it is possible for most customers to postpone their purchases for two or three years if need be. Such abstention will, indeed, be continued until people are satisfied that prices have reached stability at rock-bottom ; and in the meantime deflation and under-production are intensified and unemployment is badly aggravated. Britain's pig-iron output during the deflation year 1921 was only one-quarter of that in 1913. Relief and revival come only when price stability has reasserted itself ; and even then the cure may be ineffectual if a cycle of inflation is being pressed forward in some foreign country.

For inflation and deflation are only two complementary aspects of one and the same problem. Both are departures from a condition of stability—lurches to left or right, as it were, of a safe centre of gravity. Deflation, however, does evil that good may come ; it plunges industry into the morass with the hope of finding a solid rock foundation far beneath the mire. Inflation, on the other hand, snatches at present good, uneasy with the knowledge that a day of reckoning is to come. It is building upon the sand ; raising its house ever higher upon stilts, with exhilarating breezes blowing beneath and around it ; and making ever more inevitable the overwhelming crash of doom.

As long as these two forms of financial flux continue, the full restoration of world trade is impossible. In Great Britain, the United States

and Sweden, deflation has virtually ceased, and there are even signs of a gentle rise in prices. Elsewhere, however, international currency values are buffeted wildly about by speculative and inflational forces. Most European countries to-day face impossible obligations and hopeless Budget problems; inflation steadily increases; and the uncertainties of international politics superimpose disorderly fluctuations.

Such are the main aspects of the world's present sickness. A war inspired by mad nationalism has slashed and mangled the delicate economic system by which modern civilization was sustained. A peace dictated by mad nationalism has infected the wounds and prevented all healing. And currency disorders, sprung voluntarily and involuntarily from mad nationalistic policy, are driving the patient crazy.

Unless prompt and drastic measures of co-operative relief are applied, death and dissolution may easily supervene, and the teeming millions of our urbanized world will then, like the individual cells of a tabescent body, pass at last into stinking oblivion beneath the mouldy ruins of a defunct civilization.

## CHAPTER V

### THERAPEUTIC . PRINCIPLES

UNEMPLOYMENT to-day thus represents far more than a combination of imperfections—broken bearings and leaky valves—in the machinery of industrialism. It is rather an index to the gravest conceivable deterioration in our industrial system and a warning for all nations to co-operate in order to maintain the international economic life of the world.

Brief recapitulation may help to crystallize conceptions.

In the past one hundred and sixty years, a new industrial basis for civilization has been evolved, permitting an expansion of population which would once have seemed fantastic. The price paid for this expansion of the human race has been the economic interdependence of all those territorial groups which, though largely determined by historical accident, have come in recent times to regard themselves as separate spiritual entities or "nations." We have had the tragic spectacle of a world tending at one and the same time towards economic unity and towards greater and greater political disunity. European civilization in 1914 was in the situation of a man whose whole body, bloatedly developed, was nourished everywhere by the same

blood stream, but whose mind had been pathologically split up into several antagonistic personalities. Strife between these hostile elements led to attempted suicide; and though the attempt failed, the poor lunatic is in a badly mutilated state and his mind still wanders.

The purpose of the present chapter is to outline the principles which must underly any successful attempt at the restoration of bodily health. If they are observed, the chances of recovery are at least favourable. If they are disregarded, the prognosis is hopeless. The whole body economic is a mass of wounds and bruises and putrefying sores. Delicate and ailing at the best of times, its constitution is now so shattered that only the strictest treatment and the tenderest nursing can pull it through.

Yet even as we go on to lay down the regimen obviously required for material recovery, we must remind ourselves that disorders of the spirit have lain behind and have caused the bodily disaster. To reconcile into a unity of peaceful co-operation the dissociated and internecine elements in modern international consciousness is the task of a world-psychiatrist, whose methods in such a stupendous case cannot be set forth with the same precision. But the need for such effective harmonizing of jealous nationalisms, as by a League of Nations, underlies all treatment of an immediate economic crisis, and no measure of success with the latter problem can guarantee the world against future calamity.

Even with this reservation made, the rationale of our cure must be limited still further. Only the program advocated by the writer can be dealt with in detail, for an analysis of all the remedies prescribed for our economic ills by physicians of all schools would violate the proportions of the present work ; while consideration of quack patent medicines is more impossible still.

Thus I have no time to argue my way through the financial metaphysics of the so-called "Douglas Scheme"—that strange mixture of bookkeeping and muddy thinking, whose glowing promises fascinate the layman and whose turbidity is so often mistaken for profundity.

Neither have I leisure to enter deeply into the assumptions involved in a proposal for the reorganization of the world on any of the bases demanded by Socialists, Syndicalists or Communists. It does not yet appear that the times are ripe for any such drastic changes, and the result of any attempt to reach these ends by violent means would more probably be black chaos than Utopia. It seems preferable to keep our feet on solid ground and to consider what practical measures may be taken to deal with the system actually before us. Given the parts of a damaged clock, it is more rational to repair them and reassemble them into their old relationships than to try to fashion them into a perpetual motion machine. It is of course debatable whether it is the Bourgeois State or the Socialist State that will ultimately best further and maintain the welfare of humanity ; but the problem before us at the moment is to ensure the survival of any State at all.



The essential foundations of any industrial civilization, Socialist or Bourgeois, are the accumulation of capital and the maintenance of credit through confidence. At present the capital reserves of the world have been bled white, and psychological stability has been badly shaken. Unless these foundations of civilization can be restored, the political and economic superstructure will perish, no matter what its form. We cannot build the New Jerusalem (after any of our shining plans) without capital and confident peace; and here it is that most apostolic programs fail in the present crisis. Socialist idealists have their eyes so fixed on the end that they overlook the means. Their plans make no provision for capital accumulation; take no notice of our present grave deficiencies; seek rather to redistribute the remnants of our store; and look (all too often) to achieve that purpose by catastrophic measures which would shatter commercial confidence into maniac atoms.

Reconstruction of assured fundamentals is the inexorable first necessity. Only with firm economic prosperity can we move forward in that process of steady industrial change which is the normal characteristic of a healthy, dynamic civilization. Mad attempts to achieve proletarian ascendancy by immediate, violent means would only tear down the weakened underpinnings of our existence and hand over control to those who have as yet shown little realization of the needs and principles (e.g. capital accumulation and stability) *underlying* a constructive program. The sequel could not be anything but the break-

down of industrialism and the common doom of all classes alike.

So much by way of parenthesis. The program which I shall now set forth as necessary in world reconstruction may be summarized under four heads : (i) The gradual restoration of the damaged factors in production, viz., capital, the machinery of production and human labour efficiency ; (ii) the improvement of the machinery of distribution, by the removal of barriers and the rebuilding of destroyed transport systems ; (iii) the curative treatment of that money economy on which modern industrialism is based ; and (iv) an atmosphere of peace and co-operation, without which all efforts towards reconstruction are in jeopardy.

We have already seen in Chapter IV, that one of the most striking phenomena of the post-war period was a general breakdown of production over the entire world. Capital had been destroyed on a tremendous scale. Land had deteriorated and the machinery of production broken down in many countries. Death, disease and war-fatigue has reduced the productive ability of labour. Finally, the greater part of Europe has dropped out of international trade entirely, thus confounding the normal organization of commerce.

World-trade is of a triangular, and even of a circular nature. Before the war all nations had specialized in certain markets. Brazil sold its rubber and coffee to Germany, and then bought British manufactures. India sold its tea to Russia and its hides, jute and cotton to Germany, and then purchased English goods.

Canada sold her surplus wheat and dairy products across the Atlantic, and then bought American coal. The war cut a segment out of these circles by removing the demands of the Central Powers and Russia. Wartime governmental control (as in Australia where the entire output of wool, wheat and metals was handled by the Government) managed direct trade across the gap, but this could not continue indefinitely. When control ceased and trade was left to seek normality these foreign traders found themselves without a market in Europe, formerly the greatest market in the world. The banks carried them for a time, and then stopped. A crisis followed, and the strange resulting situation, which still persists, is the spectacle of empty factories all over Europe on the one hand and unbought raw materials all over the world on the other. Nor is the European breakdown merely industrial. The industrial areas of Europe are in Wallony, Lorraine and some parts of Germany and Czecho-Slovakia. The rest of the Continent is predominantly agricultural, but agriculture has broken down too. Peace found crops in France and Germany down by 40 per cent. Farther east in Europe the whole machinery of farm production was in ruins. The depletion of live stock was the chief loss, but implements were lacking as well and the soil had lost in fertility.

The problem before us, therefore, is to nurse back Europe's productive power and restore her to her place in the circle of international trade. In part this is a matter of exchange reform, and this aspect of the subject will be dealt

with later. Currency stabilization is no panacea, however, and an even more important factor in the restoration of production is capital. European industry was built up on capital. The war damaged the structure of industry (including agriculture), and also made ruinous inroads upon the world's supplies of capital. It is only on capital that Europe can be effectively rebuilt. Floating capital and bankers' money may help to finance trade between two nations whose industrial development is in a healthy state, but nothing short of capital investment in Europe over a long period of years will meet the present crisis.

Unfortunately there is less capital in the world to-day than ever before in modern times. The only source of new capital to remedy conditions will lie in the savings of every individual. Everyone must save and pledge his savings to investment, for the well-being of all depends on the amount of new wealth created each year by the whole world and every fragment of capital saved and deliberately devoted to reproductive purposes helps along to that extent the general consumption.

In this connection it is interesting to conjecture how much Great Britain could add to her savings if Prohibition were introduced. In 1920 Britain spent £469,000,000 on alcohol. Customs and Excise duties amounted to £132,316,353 and licence fees to £1,146,720. The total offset is thus £133,463,073, and the sheer economic waste (apart entirely from the debauchery of life and efficiency) may be set at £335,536,927. An extra capital saving of £335,000,000 each

year would be a remarkable achievement. In normal pre-war times the total amount of new investment money brought forward each year by the British public was only £400,000,000. It may of course be deemed idle to consider the possibility of Prohibition when alcohol has still so strong a hold on national affections and its proprietary interests so tight a grip on governmental policy ; it at least does no harm to contemplate the gain which would accrue from such a reform.

Equally desirable, and apparently almost equally difficult, from the point of view of capital accumulation, is the strictest economy in national expenditure and the reduction of taxation to the lowest possible figure. The true significance of this measure has been somewhat spoiled by a section of the Press, which has seized upon Budget excesses as the unpardonable sin and the sole cause of every present trouble. There are certain statutory expenses which cannot be eliminated, such as an annual charge of £366,000,000 for National Debt and funding services. The still uncertain state of international politics renders complete military and naval disarmament extremely hazardous. Other considerations are not lacking. But the fact remains that heavy taxation is a serious burden on industrial development, an importunate dragon devouring every infant saving begotten by individual economy—and Government expenditure in excess of stark necessities is not merely a serious menace in times like these, but even a downright antisocial act. To establish habits of economy is the first duty of all, Government

and citizen alike, for capital is the material with which the structure of world industry must be rebuilt, and our stores of building material were badly raided by the war.

That such capital accumulation and its investment in Europe are essential to general recovery does not yet appear to have been realized by the general public. Attempts have rather been made to finance specific trade transactions, between solvent and necessitous countries by means of temporary credits. The two most prominent schemes of this sort, mainly complementary to one another, are the Ter Meulen Scheme under the League of Nations and the British Export Credits Scheme.

The Ter Meulen Scheme regards the problem of trade from the point of view of the indigent country which cannot pay for its imports. The procedure by which the gulf between this country and the foreign trader is to be bridged by credit is comparatively simple. The Government of the needy country will come to the League of Nations, will present a financial statement, will specify the imports which it desires to make, and will pledge certain assets (e.g. a certain portion of the customs receipts or of the railway revenues) against credits to be given. The League, if satisfied with the representations made, will authorize the issue by the national Government of Ter Meulen bonds to this extent. The private national importer meanwhile will be getting his import transaction approved by an international commission of practical business men, and with this approval in his possession he may borrow Ter Meulen bonds from his

Government, while giving still other securities of his own in return. He will then send the Ter Meulen bonds to the exporter as security for goods to be sent on credit ; and when he finally pays for his goods, the Ter Meulen bonds will be returned to him and by him to his Government, and so will become available for fresh transactions. Such a system might be expected to inspire confidence, because (1) the exporter has the Ter Meulen bonds, and the assets behind them, to fall back upon ; (2) the League is protected by the assets hypothecated by the importing country ; and (3) the Government of the importing country has taken security from the importer.

The Export Credits Scheme approaches the same problem from the point of view of the British exporter. The sum of £26,000,000 has been set aside for the administration of the scheme. Except in certain classes of consumable goods, each contract which an exporter desires to negotiate under this plan will be submitted for approval to the advisory committee of the Governmental Export Credits Department. If the application be accepted, the exporter will be guaranteed against loss to the extent of 85 per cent. of the contract, while the Government retains recourse against him for one-half of this amount. The maximum limit for repayment is set at six years. A modification of the scheme allows firms to take out short-term credits not exceeding twelve months and up to a total amount to be decided in each particular case by the advisory committee. A firm is then entitled to make contracts in a given country

or countries up to the amount of the authorized credit. The Export Credits Department will guarantee 100 per cent. of the accepted bills as they come forward, charging an appropriate commission, and will retain recourse against the exporter for  $57\frac{1}{2}$  per cent. of the amount guaranteed. The ultimate percentage liability of the State, therefore, remains the same ( $42\frac{1}{2}$  per cent.) in respect both of short-term and of long-term credits. The difference between the two is that in the one class, the State guarantees the whole of a limited general credit, while, in the other, the State guarantees 85 per cent. of individual long-date credits.

The great deficiency of both the Ter Meulen Scheme and the Export Credits Scheme is that for a long period to come the imports of necessitous European countries must greatly exceed their exports. Even if they were relieved of all past debts, trade and governmental, they would still have to import large quantities of goods for which they would not be able, for many years yet, to pay by current exports. The stabilizing of currency and exchange would likewise be insufficient. These Central and Eastern European countries are exhausted (as was the United States after the Civil War, but to a far greater extent); their productive capacity has broken down; and they can only make effective payments over a long period of years. The vital need of the present, therefore, is to finance these countries over such a protracted period. They must be looked upon by Great Britain and the United States as good fields for capital investment, i.e. they should not be



helped through loans to Governments, but through individual investment in the reconstruction and development of industry. Unless we are prepared to take such action, *and unless the political situation is peaceful enough to make it practicable*, there is not much progress in sight, either for Central and Eastern Europe or for the world as a whole. The machinery of production can only be restored through capital; and our deficiencies in capital can only be made up by conscientious economy on the part of everyone the world over.

The two specific schemes mentioned may be only temporary phases of international subvention. Both have had but moderate success, and there are indications that their functions will soon be taken over by the Central International Corporation, with headquarters in London, formed as a consequence of the Cannes Conference. Whatever changes may be made, however, in the organizations by which the rehabilitation of European trade is sought, it will remain true that enduring results can come only from investment and not from State loans or short-time subsidies.

There remains, however, one further factor in production to be considered in any scheme for rebuilding industry and trade. That factor is the efficiency of labour. Since the war there has been a marked decline in the productiveness of human labour. In Europe, this has been due in great part to war-fatigue and to famine. In Britain, it has been due more to the deliberate trade-union policy of restricting output in order (professedly) to provide more employment for

others. This economic fallacy cannot be too soon preached down, for its consequences are most vicious. If three men are engaged to do the work of two, the wages of the third man unnecessarily raise the cost of production, and therefore the price of the product. The cost of living rises, with a reduction in the purchasing power of their wages; and foreign orders are lost to the country, thus throwing all three men out of employment.

Conversely, if workers, by diligence and hard effort, increase their output by, say, 30 per cent., the wealth of the country is increased to a similar extent, prices fall, wages buy more, foreign trade is stimulated, and the economical are able to save more for investment in industry. Mr. G. N. Barnes, himself a prominent Labour leader, stated in the House of Commons in October 1921 that "at least twice as much work could be done without hurting anybody and with advantage to the health of the average worker." If a sudden spirit of zeal should descend upon the British workman and stir him up to doubling his output—merely a minimum increase necessary for health—what a transformation might be wrought in national prices, wealth and trade! While not the main remedy for present ills, an increase in production is an important item in the curative regimen. For in proportion as we can increase the reproductive powers of world industry in all its parts, so will unemployment vanish and general well-being be established.

Wealth, however, must not only be produced throughout the world. It must also be distributed, and the mechanism of transport is to-

day very much out of order. This does not apply to ocean shipping. Indeed, the spectacle of ships lying idle, far in excess of the demands of current trade, has led to the claim that there had been an overproduction of tonnage. It is calculated, however, that had the war never intervened, the amount of tonnage afloat to-day would be something like 3,000,000 tons in excess of what could be at sea to-day. It is lack of trade and not an excess of ships which must be blamed for the present depression in the mercantile marine.

With the railways of the world it is quite otherwise. Everywhere the stress of wartime and the withdrawal of capital from upkeep have left railroad systems far from efficient. From countries as far apart as India and the United States—neither touched directly by the war—comes a cry for more rolling stock and equipment. In Europe, conditions are far worse. Anyone who has travelled recently in Central and South-eastern Europe and has found all seats in trains taken up an hour in advance realizes the tremendous shortage of passenger wagons. And to the deficiency of goods transport, the melancholy lines of shattered wagons seen here and there on rusty sidings are eloquent witnesses. Roadbeds and track-systems were also actually destroyed in parts of Belgium, France and Eastern Europe. The former systems have already been fairly well restored, but in Eastern Europe nothing can bring back even pre-war efficiency except a heavy investment of capital. Russia is the worst case of all; for effective railway organization was little

more than begun before the war, and even these rudimentary beginnings have fallen into ruin and dilapidation. A recent article by Mr. A. N. Frolov, in the Warsaw *Ekonomist*, shows that in the whole country the length of single track amounts to only 40,335 miles—which means fifteen yards of track to each square mile of territory as compared with half a mile of track to the square mile in Great Britain—and most of this mileage is rapidly falling into disuse through lack of sleepers. In addition, 27 per cent. of the wagons and 62 per cent. of the engines are not fit for use.

Added to this material deterioration of transport systems, we have the further aggravation of new national boundaries and tariff barriers. The stock example of this is, of course, the region of the former Habsburg Empire, where attempts to establish separate national groups on a racial basis slashed a well-knit railway system into many hopeless fragments, and then, to confirm this confusion, brought in bitter tariffs and embargoes to prevent any interchange of goods between the mad States which entered on a new era in such a hedgehog temper. Events have proved too strong for them, however, for each found itself the chief sufferer from such internecine economic war, and last autumn the Succession States met at Porto Rose to consider, in more chastened mood, the possibilities of transportation co-operation. The conventions drawn up as a result of this conference provide for measures of traffic co-ordination, and steps have since been taken, at the Genoa Conference, to extend such provisions to the European Powers

generally. It is proposed, indeed, that a conference shall assemble immediately, to be composed entirely of technical representatives of all the European railway administrations. The object of this assembly of technicians would be to decide what steps could be taken at once to co-ordinate and improve international railway traffic throughout all Europe, and to organize, if possible, a permanent international railway association, composed of railway managers. It would further seek to assimilate and improve railway equipment and methods of operation. It is also understood that the League of Nations would be invited to oversee all international railway work that is not of a purely technical description, and especially to see that international agreements relating to railway communications are strictly observed. All this is movement in the right direction, and given proper conditions of international good-will, the benefits of such improvements in the machinery of distribution will be most considerable.

Tariff barriers, however, remain untouched, and are probably higher to-day than at any time in modern history. Even Britain with her notable free trade successes in the past, has turned back into the shadows of protection. The great reason for such fiscal policies is in most cases the financial embarrassments of Governments in these critical post-war times. Indirect taxation is notoriously easier to impose than direct taxation, and many countries have sought to conceal the real burden of their expenditure from their citizens by heavier recourse to tariffs. The United States is an outstanding instance, how-

ever, of sky-scraping tariffs imposed solely in order to maintain high prices and profits for national producers. America to-day is the most prosperous country in the world, with a tax-rate approximately one-third that of Britain (1921-2, U.S.A. £7, 8s. *od.*, Britain £20 8s. 10*d.* per head); yet she has maintained and is to-day even exceeding her traditional policy of high tariffs for the exclusion of imports. The temperament of the interests thus protected was well shown at a convention of the National Association of Manufacturers which opened at Washington on January 30, 1922. It was then found that as a result of exchange fluctuations, European, and especially German, exporters were at last creeping in over the top of the sacred tariff wall. Razors selling in the American market at \$4.00 each were being offered by the Germans at \$3.34 per dozen, duty paid (less than one-fourteenth of the American price); while certain types of locks retailed at 92 cents were being duplicated by Germany at 18 cents a dozen (or one-sixty-second of the American charge). Hysterics and tumult broke forth. It has since transpired that German exports to the whole world have attained to only one-quarter of their pre-war volume (Herr Rathenau's statistics at the Cannes Conference). The simple truth is that American industry has been nursed along to a point where it refuses to tolerate competition of any sort. The converse of the proposition is to be found in American export trade and finance relationships with Europe. The older continent owes America fifteen milliards of dollars

to-day. The only way in which this colossal sum could be repaid would be by an excess of European exports to America over American exports to Europe; and for the past seven years the balance has averaged three milliard dollars annually in the opposite direction. America refuses to accept European goods, yet insists on selling abroad. Her high tariff policy defeats itself and continues to aggravate the disorder of international trade.

Tariffs of some sort are perhaps inextricably intertwined with the financial troubles of most nations to-day, and cannot hope for cure before the larger issues have been settled. Yet we should not forget that all restraints on freedom of distribution are deleterious to healthy trade, and that the unnecessary imposition of such obstacles is reprehensible in the extreme. The highways of commerce are rough enough nowadays without having barbed wire entanglements strung across them.

We may now pass to a discussion of that general breakdown of our money economy which is so manifest to-day that many have declared it (though erroneously) to be the sole cause of our present international troubles. It has been seen that the world is facing a *gross under-production of goods*. It is also true that the world has been witnessing a *gross over-production of paper money*. These two processes worsen one another by their interaction and the end is pure evil.

The under-production of goods, arising in the first place from the disorder and destruction of war, has already been dealt with. The no less

serious over-production of paper currency must now engage our attention. As was shown in Chapter IV, a notable increase in the quantity of such currency relative to the quantity of goods in the country of issue produces a corresponding decrease in the purchasing-power, or value in terms of goods. When, as in some European countries, the currency is increased by from ten to a hundred times its pre-war amount, and the production of goods is at the same time seriously cut down, the value of the currency will become positively demoralized ; and, unless inflation ceases and political conditions become stable, will fluctuate so wildly as to make foreign trade almost impossible.

The two chief causes of inflation (and menaces to financial stability) are (1) the existence of huge money claims between nations, and (2) the existence of abnormal internal Budget requirements.

The outstanding examples of the international accounts are the war debt claims of Britain on her European Allies (totalling seventeen hundred million pounds), the war and trade debt claims of America on Britain and Europe (totalling three milliards of pounds), and the Allied reparation claims against Germany (totalling six and a half milliard pounds). These huge balances could never have arisen apart from Armageddon, and those who now press for their payment do not yet realize that the results would be as violent and full of misery as those of the war itself.

For large international payments can only be made in goods. Gold exists in quantities only sufficient for minor payments, and, as a matter



of fact, most of the world's supply of gold is to-day in the hands of creditor nations. Supplies of foreign securities, arising out of pre-war investments abroad, were also largely handed over to the chief creditor nation during wartime. There only remains the shipment of goods, and to accept these would inflict on creditors more damage than benefit..

In this we face inexorable economic laws. The modern world has been formed industrially about a very definite organization whereby every area of every country has its own productive function (with an output of textiles, or steel or coal), which either could not be altered at all or could be altered only over a long period and at the cost of much human suffering. Now huge international shipments of goods in payment of debts would utterly confound this organization. *In any market, supply must not materially exceed demand; or the machinery of production will be brought to a standstill.* If Germany shipped to Britain all the coal that the island required, it would naturally follow that every coal-miner in Britain would be thrown out of work, and Britain would soon pay, in distress and in unemployment subsidies, more than the value of the shipment. If France, in payment of war debts, were to deliver across the Channel all the furniture required by Britain, the whole British furniture industry would ~~be~~ thrown out into the street. And if Britain were to meet, gratis, the textile requirements of the United States, the two million textile workers of the latter country would rot in idleness. It is all as clear as noon-day.

It was the shipment of goods on a vast scale that originally created these debts (apart from reparations). The goods consisted, however, of munitions (which went directly into destruction and did not compete, like peace goods, with national production), of food (which only supplemented the depleted output of national agriculture) and of manufactures (which produced no ill effects because the Allied workmen, instead of being thrown into unemployment, were already in the fighting forces to the number of thirty-seven millions). Repayment would also have to be in goods, but here it would be in the commodities of peace, which would compete at every point with national production, while at the same time there would be no supplementary occupation, such as warfare, to absorb the displaced millions.

The situation is, however, even blacker from the point of view of the debtor States. There is a fundamental difference between these international debts due to the late war and other debts which were created before the war and are still in existence. The pre-war debts were chiefly incurred for productive purposes and for adding to the world's wealth, and there was consequently a natural increment which could be devoted to the repayment of the loans. In the case, however, of the debts incurred in the war, the loans ministered to the purpose of destruction. No increase of wealth has resulted from them; on the contrary, wealth and sources of income already existing have been largely depleted. If, therefore, notwithstanding the great increase in debt on the one hand and the de-

crease in wealth on the other, a debtor country is to meet its obligations and also to regain its pre-war economic level (or even to remain at the level of to-day), the interest and amortization of debts can only be provided for by vastly greater efforts of production than before—that is to say, through more strenuous labour aided by improved methods and organization and coupled with a lower standard of living.

Herein lie two grave dangers. A country whose production is thus forced ahead on a basis of efficiency and cheap labour might gain both the incentive and the ability to compete unfairly in the markets of the world. From one point of view it would be a slave nation, whose labourers were being sweated for the profit of creditor States. When we consider, however, the reaction of its excessive output on the industries of creditor nations, we see that the system would be a double blight, cursing those who paid and those who received the payments.

There are limits, moreover, to the extent to which the standard of living can safely be reduced, and a country which has to carry a burden of debt in excess of its capacity will be unable to make revenue and expenditure meet, with the result that borrowing will be necessary to make good the deficit. Such borrowing may take place through internal or external loans, so long as people can be found who are willing to subscribe to them, but the State will be finally forced to adopt that form of borrowing which is worst of all, that is to say, the increase of paper currency, which is in fact a forced loan from the people. This will be followed,

of course, by automatic readjustment. The currency will lose its value, prices of imported foodstuffs and raw materials must then rise, and this will be followed by a rise in the costs of production. If the process is carried too far, the ability to compete will be lost and bankruptcy and ruin will eventually follow. Such a condition would not only make the payment of debt impossible, but would also deprive the rest of the world of one of its markets.

The closest and most familiar creditor account is that which Britain holds against her European Allies. Here the situation is clear enough ; and enlightened opinion is so well formed on the subject that it would be superfluous to enter here upon detailed discussion. Modern Britain, the most highly industrialized nation in the world, cannot survive without a generous allowance of foreign trade. Her European debtors are, for the most part, not only unable to pay their war debts, but so demoralized by war as to be very ineffective participants in world commerce. Britain must, for her own sake, restore trade, no matter what the cost. The inevitable conclusion, therefore, is that she must not only forego the sums legally due her from Europe (while taking such guarantees as she can for the maintenance of peace), but also be prepared to invest her capital in the valetudinarian industries of the Continent. It is a hard choice, but the issue is unmistakable. To withhold her capital and press for her debts would soon ruin Europe—exchanges, trade and all—and her own turn would not be far behind.

The case of America is somewhat similar,

but is further complicated by the fact that the Americans, while stoutly demanding payment, are prosecuting a trade policy which renders payment more and more impossible.

During the past seven years the United States has exported twenty-six milliard dollars worth of goods to Europe; and has received in return less than five milliard dollars worth of European goods. The actual excess of exports over imports in the septennial period was \$21,535,198,000 (figures of the U.S.A. Department of Commerce). The nations outside of Europe have traded with the United States upon an almost even basis, so that the European trade problem stands out by itself. There is no possibility of a triangular adjustment of balances. The total clear excess of exports to Europe thus amounted to over three milliard dollars annually over the period 1915-21.

Temporary adjustment of the outstanding 21.5 milliard dollars has been made in several ways. Europe has sent 2.4 milliard dollars in gold and silver and two milliards in American securities which had been acquired by European investors during the half-century previous. America, on the other hand, has squared off 2.1 milliard dollars with relief and immigrant remittances. The sum of 6.5 milliards has thus been settled fully and permanently. The remaining fifteen milliards still baffle adjustment. Two milliard dollars of this balance is in the form of European Government bonds, which have been sold to investors in the United States during the past seven years. Approximately ten milliards more is due to the Government of

the United States from the Governments of Britain, France, Italy, Russia and Belgium. The final balance of three milliard dollars is an unfunded sum owed to banks, industrial firms and private individuals.

The payment of these balances, totalling fifteen milliards, is impossible in any ordinary sense. It is a question of trade, purely and simply, for Europe has neither gold nor securities to offer, and can only settle by an excess of exports to America over imports from America. We have already seen that the annual balance for the past seven years has been three milliard dollars in the reverse direction. The only way, in which Europe can pay is by restricting imports from America and increasing exports to America. The United States Government meanwhile refuses, by its tariff policy, to accept imports from anywhere; and at the same time seeks to stimulate its export trade and increase it even beyond its present proportions.

America is thus, in spite of her wealth, in a most embarrassing position. If she insists on exporting to Europe on the present basis, with a stoppage of reverse trade, she can only do so by making Europe an annual present of three milliards of dollars. Such a situation could not endure permanently. As foreign trade it would be farcical. America would be forced by circumstances either to remove her tariff fortifications (and so to encourage imports) or to scrap her expensive export organization in so far as it affected Europe. Other variations of the dilemma exist. If the Federal Reserve Board were to stop tampering with American

finance and were to permit the gold influx to produce its natural consequences, American prices would rise faster than European prices, European manufacturers would find it easier to export to America in spite of the tariff, and European consumers would be unable to buy American exports, beyond the sheerest necessities. The same effect would be produced by a further depreciation of the European exchanges, as a result of hypothecating resources against America's continued excess of exports. In such cases the American exporter might try to meet the situation by reducing his prices, but a couple of years of commerce below his cost of production would inevitably force him to cut down his trade or go out of business. It is perfectly useless for American business interests to imagine that they can maintain trade equilibrium with the present volume of exports and a slender trickle of imports. America must either cut down her exports, so far as Europe is concerned, or abolish her tariffs and encourage imports—with serious reductions in her prices, profits and standard of life. Either policy means at least partial renunciation of the huge industrial development by which she seeks to make profit out of the whole world. As with the boy and the filbert-jar, the more she grasps after, the more impossible it is for her to achieve her gain. There must be an ultimate readjustment of trade if equilibrium is to be established. There is no alternative. A continuation of the present American trade development is inconceivable.

If, in addition, payment of the present

European debt were exacted, the readjustment would be still more drastic and violent. If the whole debt were funded, the payment in respect of interest and sinking fund would amount to \$600,000,000 per annum. This, along with a demand for settlement within three years of the unfunded three milliards due to private interests, would mean an annual charge of \$1,500,000,000 during that time. Europe can only pay with goods, and to transfer a net adverse balance of \$3,000,000,000 per annum into a favourable balance of \$1,500,000,000 per annum would wreck American industry as at present constituted. Europe would still require American cotton and cereals. She could return only manufactures. In order to show a clear surplus of \$4,500,000,000 a year over the present trade balance, she would have to ship such a flood of merchandise that not only would America's export trade have to be scrapped, but much of her manufacturing for domestic consumption would have to be abandoned as well. Many industries would be annihilated and the country's economic organization would have to be reconstituted on a much more purely agricultural basis. Such a readjustment would take time, and would probably cause more distress than America has ever known in all her history. But the whole project is absurd. Before any such change could be effected there would be deafening outcries from the capitalists and workmen employed in the industries thus threatened. Big business interests, the corporation octopi which have wrapped themselves so firmly about North American politics, would never consent to their



own extinction. Confronted by the brutal and unappetizing truth, they would force the acceptance of huge temporary losses in order to achieve such an ultimate adjustment as should be least violent and most profitable.

The first move lies, of course, with the creditor ; and America is preparing to ask for her money. An American Funding Commission is arranging the terms on which Europe shall repay her debts with interest.

So far as Great Britain is concerned, there should be little difficulty, since Britain is fully prepared to pay. It is worth remembering, however, that the £952,000,000 involved was borrowed from America after she entered the war, and that during that same period a somewhat larger sum was lent by Great Britain to the Allies, in addition to what she had already lent them before that period. It is certain that if Britain had not lent this sum to her other Allies it would have been unnecessary for her to have borrowed one penny-piece from the United States. She stands in the position of one who has backed the note of an indigent borrower and now is called upon to pay up in full, while America has the advantage of being legally able to exact payment from the solvent backer instead of having to haggle fruitlessly with the bankrupt who received and spent the money. This was, too, foreseen and provided for by the thrifty creditor, for when Britain urged, early in 1918, that the United States Government relieve her of the burden of financing the Allies (and proposed at the same time to pay, without recourse to loans, for all British

purchases in America), the Wilson administration refused, and forced the arrangement which gave it a milliard-pound claim on solvent Britain. One might have supposed that the succeeding administration would be eager to wipe out the reproach of such sharp dealing in an hour when Allied blood was being poured out in the common cause on a scale in which America never shared. Perhaps the present pious self-vindication of the Republican leaders is prompted by the imminence of elections.

While Britain, however, is conscientiously preparing to pay up this ambiguous obligation, most of the other debtor nations are taking their liabilities with a strange light-heartedness. France, for example, has yet to raise a single franc through taxation towards any of the costs of the war, yet she takes it for granted that she cannot pay her foreign obligations, that no one should think of calling upon her to pay, and that she has a right to feel pained at the demands of the American Funding Commission. A recent declaration by M. Loucheur ran, in part, as follows: "We cannot pay now, and we cannot pay ever. No clear-headed man with a real knowledge of financial facts has the remotest idea that we can ever pay. How utterly illogical and inconsistent is the American attitude!"

It is just possible that Britain's attitude towards Europe has helped to establish this state of mind. The Continent owes Britain more than it owes the United States, but Britain has encouraged the tacit understanding that she is not going to stand harshly on her legal rights.

The American, who is less intimately acquainted than the Briton is with the bareness of the European cupboard, is naturally less complaisant about seeing several milliards of good American dollars written off as worthless. He is particularly concerned to note that the poverty which is said to prevent the punctual repayment of his loans does not preclude several countries from maintaining large, expensive, and, as he thinks, unnecessary armies. This is logic, but there are arguments on the other side as well, for no reduction in European armies, however great, will permit Europe to pay America so long as the high tariff wall against imports is maintained.

The crux of the matter is political. America wants to see political stability in Europe and a cessation of alarms, unrest and threats of war before she indulges in any great economic benefaction. European countries, on the other hand, feel that their inability to pay is so obvious and the cancellation of their debts so inevitable that they have nothing to lose by further misbehaviour. The declaration of M. Loucheur, quoted above, was, for example, construed in America as giving notice that France is not prepared to consider her obligations to America as a factor which need in any degree affect her general European policy of violence and selfish obstruction. Much will depend on whether such European nations will come to realize the serious ultimate disadvantage of embittering their relationships with the United States. Most enlightened Americans would be quite willing to suspend the European debts if

they could be used as a rod to keep the Old World at peace. But so long as the debtors show themselves wholly irresponsible, America will probably continue to press for payment in the hope of bringing them to their senses.

The relation of all this to European currencies and exchange is clear enough. The exaction of even a fraction of the American debt would cause serious demoralization. The cancellation of the whole amount would be necessary for the effective removal of one of the greatest menaces to solvency. In this instance, the deciding factor will be the behaviour of the debtor nations. If Poincaré succeeds in dominating Europe, the crazy Continent will soon crash to the ground.

The most critical case of an international obligation, however, lies in the reparation bill lodged against Germany. The inter-Allied debts, as existing between friends, have not yet been pressed to any drastic ends. A fallen enemy was the debtor in the case of reparations, and here much more violent steps have been taken. *Payment of these huge sums is equally impossible in all cases*; but in the case of Germany, Allied indignation, need and hatred have backed clouded reason up by force, and have already brought upon the world many of the evil effects inevitable in such outrages on economic law.

The chief aspects of this problem have been dealt with in Chapter IV, but recapitulation may not be out of place. The total sum fixed by the Reparation Commission for payment by Germany is £6,600,000,000, or a little over 134 milliard gold marks.\* To meet this demand

Germany has nothing but her goods, and they are hopelessly inadequate. Every removable asset by which she might have paid has been pried off and confiscated. She has no longer any gold or foreign securities. Her public and private holdings abroad have been seized. Her mercantile marine, her colonies, and three out of four of her industrial areas have been confiscated. For all of these items, estimated by some as not far short of the reparation total, only slender credit has been given. Her export trade, which even in pre-war times showed a balance against her, and was only adjusted by invisible exports, now non-existent, is still only one-quarter of its pre-war volume. That a nation which has thus been stripped of every conceivable means of payment should now be called upon to pay over the equivalent of nearly three times the total pre-war value of the Japanese Empire is an impossible and preposterous proposition, a demand for "bricks without straw," or even clay. Payments to February 28, 1922, had, however, amounted to 9,500 million gold marks, or about £475,000,000, but against this had to be set advances granted Germany under the Spa Agreement and the cost of an Army of Occupation, which, as it was paid on a basis of French, Belgian, British and American currencies, received fabulous pay in terms of German currency and internal purchasing power.

The only way in which even this extent of the reparation bill has been met is through the export of German paper currency. In the sequel, the cost is partly borne by the German

people and partly by the foreign merchant or speculator who buys marks. The former phase is evident enough, for the inflation necessary for the production of the extra paper currency depreciates its value and constitutes a heavy tax on the German people—a tax which bears most heavily on those with fixed incomes or with wages which lag far behind prices. The foreign victim is usually a speculator, and the very process by which paper marks are turned out for his benefit lessens their value; the exchange rate keeps sagging steadily below that at which he bought, and the longer he hangs on the more serious become his losses. If, however, he is a *bona fide* merchant, the significance of a purchase of marks is that he exchanges a stable purchasing power in America or England for a steadily diminishing purchasing power in Germany; and if any considerable interval elapses before his marks are converted into German goods, the value of these in terms of gold will be only a fraction of the amount originally paid in dollars or sterling. But if Germany cannot thus sell marks, she cannot pay any reparation bill in cash. It is an economic impossibility. And to compel her to pay is to force inflation on a large scale, ending in exchange demoralization and, if pushed far enough, industrial ruin.

The reality of this analysis is now beyond all question. Marks, which in pre-war times were roughly 20 to the pound sterling, exchanged two years ago at 160 to the pound, and a year ago at 290. Since then the descent has been precipitous. Quotations were at 800 to the

pound at the beginning of the current year, at 1,650 on July 1st, at 2,900 on July 31st, at 3,700 on August 2nd, at 5,000 on August 17th, and at 10,000 on August 27th.

This way lies bankruptcy and the collapse of Central Europe. Austria is already prostrate and demoralized; and Germany, on whose well-being so much of European prosperity depends, is reeling down to the same pit. With her currency losing in value at this mad rate, Germany can no longer carry on international trade. Her manufacturers cannot import raw materials. Her workers' wages cannot buy imported food. Budget deficits yawn wider and wider as taxes shrink over night. Only a moratorium, a foreign loan, and an ultimate wholesale reduction of the reparation bill can salvage the derelict country.

The French, meanwhile, unwilling to admit that they have been wrong all along (and the economists right), and knowing that their own bankruptcy would soon follow a cessation of payments from abroad, are refusing to consider any rational revision of the reparation terms, and are even talking of withdrawing from the Reparation Commission in order to take all of Germany's resources over by force, and exploit them to the last pfennig.

This folly will never do! The present German Government is weak and unstable, threatened by Communists from the left and by Monarchists from the right. It represents, moreover, those elements in Germany which have honestly tried to carry out the Treaty of Versailles. The financial collapse which is now

imminent would almost certainly bring on political disintegration, and the reparation claims (which could be wrung only from a Government and not from a chaotic and insurgent population) would lapse automatically, leaving behind a tradition of hatred and revenge to vex the future. The reconstruction of Central Europe, on which the revival of British industry depends so much, would be postponed indefinitely. The French Government would face hopeless insolvency.

The German reparation bill thus constitutes by far the most crucial of the international obligations with which we have dealt. All of these vast international claims will have to be wiped out in time, but this particular claim is forcing an immediate settlement.

The chief obstacle (one might almost say the only one) is France; and an examination of the French problem will bring us at once into touch with the second great class of financial burdens, viz., those arising from internal expenditures and deficits. France's financial troubles do not spring from attempts to repay her foreign debts, for, as a matter of fact, she has made no attempt to repay them. Budget deficits from internal causes are rather the source of her embarrassment.

Part of this is due to lack of taxation. So little have levies touched the nation's purse that Mr. Harvey E. Fisk, the author of *French Public Finance* (Bankers' Trust Company, New York), has claimed that the present wealth of France, on a gold basis, is approximately equal to that of pre-war times. During wartime, less



than the normal pre-war cost of administration was raised in taxes ; and the reactionary zealots who were returned to power in the elections of November 16, 1919, still press but gently on great fortunes and pin their hopes on indirect taxes, which only serve to oppress the impecunious poor.

The converse cause is extravagant expenditure, especially on armaments. Recent Press propaganda, disseminated on July 1, 1922, by the French Government, has denied this, and has claimed that French military expenditure is less than one-half that of Britain. This equivocal statement gives only the military appropriations in France's "ordinary" Budget, and suppresses the costs of her standing army, which go to swell the deficit in her "extraordinary" Budget. The attempt was made to pasture this expenditure on Germany, along with the voracious reparation claim, but this was economically impossible and the deficit has returned, in effect if not in form, to clamour at its master's crib. Even a reduction of armaments, a cancellation of inter-Allied debts, and the imposition of heavier and more balanced taxation might not succeed in making French revenue and expenditure meet without the aid of a foreign loan ; but the retrenchment on military outlay is the first necessity in any case.

Similar Budget situations exist in many other European countries to-day, and the usual prime factor in distress is the cost of the army. At the beginning of 1922, for example, the more important armies of Europe were as follows :—

Country.	Population.	Army.
Soviet Russia ..	124,000,000	1,500,000
France ..	40,000,000	800,000
Poland ..	27,000,000	600,000
Italy ..	40,000,000	500,000
Jugo-Slavia ..	12,000,000	500,000
Netherlands ..	7,000,000	260,000
Czecho-Slovakia ..	13,000,000	250,000
Greece ..	6,000,000	250,000
Rumania ..	17,000,000	230,000
Great Britain ..	47,000,000	210,000
Finland ..	3,300,000	100,000
Germany ..	62,000,000	100,000
Austria ..	6,000,000	30,000

Thus we find in Europe, more than three years after the Armistice, standing armies of *over five million men*; and it is noteworthy that the overwhelming bulk of these armies is to be found in those countries which can least afford such luxuries. With such an enormous bill to meet, it would be a strange thing if Budgets could be made to balance, apart altogether from debt charges. And there are additional extravagances, too, in swollen civil services and in subsidies towards the cost of foodstuffs and public utilities—devices by which Governments attempt to conceal from their subjects the results of their own maladministration, and by so doing plunge all the deeper into the mire.

In the case of Germany and Austria, military expenditure obviously does not enter into the problem. The countries were originally thrust down towards bankruptcy by external exactions and interference, but even the removal of these

inquisitional implements would not restore financial health without the application of foreign loans. Here, again, we are thrown back on the political situation, for so long as armaments are maintained throughout other countries and the whole Continent is threatened with alarms and excursions, no nation or individual will feel inclined to lend money to the imperilled Governments of Germany and Austria.

A general disarmament treaty, involving every nation, *and every branch of warfare*, would thus appear to be a concomitant essential to any settlement of international debts and reparation claims. The Cecil Scheme, now under consideration by the League of Nations Temporary Mixed Commission on Armaments is a splendid move in the right direction. Economic reconstruction can never be achieved so long as armed fear and jealousy pile up debt and prevent the adjustment of all great international financial obligations. We cannot hope to build up until the ground has been cleared of such gross and menacing encumbrances.

Granted such a clearance, however, we could lay down the conditions for a constructive currency program. Peace, the squaring of international war obligations, and a few discreet and limited loans would probably leave every Budget in Europe with a fighting chance for equilibrium, provided that Governments were not guilty of further extravagance or incompetence. A complete and permanent cessation of the printing of paper currency—a cessation absolutely vital to stability—would thus become possible. From this, the currencies would tend automatically to

adjust themselves to a comparatively stable exchange ratio on a basis of purchasing-power parity. As irregularities of trade and currency speculation would, however, endanger this stability from time to time, it becomes desirable that all currencies should be anchored to a common standard, and the only standard that is generally acceptable is gold.

The anvil on which this new link with gold should be forged is "devaluation," that is, the setting of a gold parity at the new purchasing-power parity (or indeed at any chosen figure less than the old gold parity). The word suggests a legalized debasement of currency; but to all intents and purposes that debasement has already taken place. Devaluation means that the present currency situation should be realized and accepted; and that a new gold basis should be established at a current ratio which bears some hope of stability. Such a reduction would be quite in accord with all past records of economic history. In every country, legal tender has shown steady deterioration down through the centuries, and especially after such great disturbances as war and revolution. The new gold coins would be much lighter in weight than before, but would be perfectly respectable currencies in the light of history.

There might be considerable debate, of course, over the determination of the gold value of the monetary unit. The pound sterling seems to show a permanent depreciation of at least two shillings, but in spite of this fact and in spite of the prospects of more unfavourable exchange in the near future, the great majority of British

bankers (not to mention the Treasury and many leading economists) are convinced of the feasibility and desirability of restoring at a very early date the strictest equivalence of the old gold par. In matters of currency and credit, all those considerations which may be summed up in the word "confidence" have to be taken into account; and it is quite possible that wherever countries whose currencies are but little depreciated wish to restore them completely as a matter of pride, sentiment or policy, no serious economic objection could be lodged against their action.

In all countries, however, whose currencies have fallen far (more than, say, 20 per cent. below the pre-war parity), it would seem that a return to the old standard—involving continued readjustments of money-wages and prices and staggering increase in the burden of internal debt—would involve too heavy a strain on national resources. The only hope of such countries lies in a bold decision to fix a new gold par at or near the figure at which comparative stability has been attained by a stoppage of inflation. Steps would then be taken to back the currency issue by strong reserves, not necessarily of gold, and to make the new "gold exchange value" effective in international markets.

As progress permitted, several of the countries (as many as possible) would establish a market in gold, holding uncoined gold assets at home and inviolable reserves of bills and securities in the other countries as well. The whole scheme would be to maintain all participating currencies

at their new "gold exchange standard." Each nation would be responsible for the preservation of its currency's integrity and would be penalized for failure to achieve this end. Such control assumes a regulatory authority in each country which would increase or decrease the quantity of the national currency according as it became too scarce (and worth more than par) or redundant (and hence worth less than par). All artificial control of exchange operations, however, either in the fixing of rates or in the prevention of such practices as forward exchange, is to be condemned as futile and mischievous.

Fuller details of a plan for currency reform in Europe would exceed the proportions of the present essay. The conditions essential to financial recovery were laid down in the Reports of the International Financial Conference at Brussels in September 1920, and more specific recommendations concerning currency and exchange have recently been published in the Resolutions of the Financial Commission of the Genoa Conference. The general requirements are (1) an immediate cessation of all currency inflation, facilitated, if necessary, by a cancellation of debts and reparation claims, a wholesale reduction of European armies, and the strictest national economies, (2) the establishment of new gold exchange standards corresponding to the actual condition of the national currency, and (3) the maintenance of this gold exchange standard by careful currency regulation, while at the same time leaving international exchange and trade absolutely free.

But all these programs for the restoration of production, distribution and sound finance are merely counsels of perfection. Whether they can be put into execution or must be thrown out into a dusty limbo of futile hopes, antecedent to a general collapse in Europe, will depend on political events.

For the issue is still the struggle of nationalism against internationalism. That pathological dissociation of modern world-consciousness into mutually hostile fragmentary selves which led to the suicidal self-mutilation of 1914 still persists. There have been lucid intervals; the formation of the League of Nations seemed to promise complete mental integration and sanity; but the old complexes are manifesting themselves again, and body and spirit are both in peril.

In the west of Europe we have France, aggressive and militaristic. An army of eight hundred thousand men; an aerial navy developed to a superlative degree; military alliances with the sympathetic younger nations of Europe; a rabidly reactionary administration which becomes more and more violent as bankruptcy draws near; and a predominantly agricultural population whose natural conservatism makes possible sustained deception, through nationalistic propaganda, by a designing Government—all these factors make for international danger and unrest. The sabre-rattling spirit of Louis XIV and Napoleon I dictates too often the present policies of France. Her representatives have been consistently obstructive in the Assembly and Council of the League of Nations. Her intransigence

has stultified all efforts towards helpful compromise on the Reparation Commission. Her intrigues in Egypt, Syria, Asia Minor, the Balkans, the new post-Habsburg States and the Catholic regions of Germany have been incessant. She tried to torpedo Britain at the Washington Conference, and almost succeeded; she tried again at the Genoa Conference, and scarcely failed. In all of her international relations, formal and informal, she has been consistently mischievous and menacing. Her irresponsible nationalism may be regarded as the greatest single obstacle to European reconstruction.

At the other end of the Continent stands the Government of Soviet Russia, in effect a perverted form of nationalism. Russia is nominally a democracy of 124,000,000 citizens, chiefly rural; but is actually an oligarchy of about 600,000 urban Communists. It nominally preaches a gospel of internationalism; in reality it seeks world-wide violent proselytization to a type of polity which is distinctly peculiar to the Russian proletariat. In a very real sense its foreign policy, as revealed in the Caucasus for example, lies directly in the tradition of Czarist Imperialism. The absolute separation, physical and moral, of Russia from the rest of Europe is, of course, a serious breach in the Continent's economic life. The Communist revolution, which destroyed the country's urban industrial system, and the agrarian revolution, which replaced scientific estate farming with primitive peasant agriculture, have virtually annulled the export capacity of one-third of Europe's area and population. This lapse of national productivity



and the resultant stoppage of international trade mean a permanent and wholesale degradation in standards of life. In the cities and in certain areas cursed by drought this reduction has been pushed to the point of extermination for many of the country's teeming millions. Relief work for simple humanity's sake is the crying need of the hour ; but only a peaceful internationalism will ever permit the upbuilding of the economic organization by which Russia will be not only saved for herself, but restored as a factor in the mutual prosperity of nations. This does not presume the overthrow of the present administration ; no well-informed person looks to-day for any successful uprising or for any Government representing in some charmed way " the freely expressed sanction of the people over which it seeks to rule " ; but the abandonment by the Soviet Government of its declared purpose of imposing on all nations, by fair means or foul, the Russian national (and highly experimental) scheme of society will be essential to any effective attempt at restoration from without. To the furtherance of this end nothing may perhaps add more than a display of human kindness in the relief of famine sufferers, and gestures towards confident commercial transactions on the part of adventurous business houses. None the less, the infatuated Communistic nationalists of Russia, with their faith in the puissance of armies, are still a cloud on the eastern horizon.

In between the menace of Russia and the menace of France, riots a herd of younger peoples, bitten by this same gad-fly of nationalism

and imperilling the whole Continent in their madness. In the single question of boundaries, for example, the peace treaties and the nationalist forays of the post-war period have created many dangerous situations. Western Thrace and the Southern Dobrudja have been stolen from Bulgaria; and Bessarabia represents unscrupulous Rumanian aggrandisement at the expense of Russia. Hungary has been savagely trimmed of territory, and her nationalists are restless. The Silesian settlement is not without friction. Poland also holds Eastern Galicia (a brazen theft from Russia) and Vilna (in defiance of the League of Nations). To most of these areas the nations in occupation have not the slightest shadow of a legitimate claim, and their tenure becomes steadily more precarious and full of danger. The old grievance of Alsace-Lorraine has been multiplied sixfold in Eastern Europe. It is an ominous sign that these jealous peoples are drifting more and more into military alliances and diplomatic covenants of the old unsavoury type, and are thus tacitly renouncing the ideals of co-operative internationalism embodied in the League of Nations.

The final egregious example of nationalism is the United States, but here it is of a different type, an ingrowing nationalism, a sort of spiritual encapsulation naturally resulting from a long period of preoccupation with the issues of local pioneer development. A splendid advance beyond this came in the idealism which—it now seems many, many years ago—proclaimed and championed the League of Nations. But alas, it was zeal without knowledge, a sympathy which

thrilled to an ideal, yet did not understand the complexity and perversity of those older families of humanity with whom the working-out of that ideal had to be shared. The poisonous impracticabilities of the peace treaties brought prompt discouragement, and American idealism retreated in dismay behind the three-mile limit. Hence came the partial stultification of the League. To Europe, the presence of the United States in that world federation would have brought both economic hope and the steadying influence of American impartiality on internal European suspicions and jealousies. To America itself, the venture would have brought salutary release from a national outlook that ran the risk of blurring into self-laudatory parochialism.

But the issue is not definitely lost. The narrow-brained priests of the golden calf, who sandbagged the Moses of the Fourteen Points and stampeded the people back into the wilderness, are steadily alienating allegiance by their suicidal economic policy. There are whispers of an impending Democratic victory; of a new Republican foreign policy. The breath of life seems to be creeping back into the prostrate Ideal, and the great republic seems to be groping back towards that former moral leadership in world affairs which the great apostasy of 1920 trampled under foot.

This is auspicious; for *the internationalism of the League of Nations is the only hope of Occidental civilization*. The voluntary federation of all peoples for mutual help and advancement is the only possible answer to the challenge of the war.

Our modern world depends for its existence on a basis of international economics. That foundation is shaken and upheaved by the insanity of modern nationalism—a principle (or mob emotion) at once irresponsible, irrational, and irresistible in its manifestations. The nationalist considers all sins, whether against neighbour, common sense, morality or the Holy Ghost, to be acts of virtue if committed in the name of what he calls patriotism.

I am not deriding true patriotism. A proud love of one's country is as natural and as fitting as proud love of one's family. Like all native Canadians, for example, I glory in my Canadian nationality, and bitterly resent the term "Colonial." Yet patriotism is no more justified in aggressive national expansion than the individual is justified in proclaiming unprovoked war on the community for the sake of glorifying his family. Humanity is one and indivisible, and the duty of patriotism lies in seeking to make some unique, peaceful contribution to the wisdom of the world's counsels.

Modern nationalism seeks very different ends. It is an inflammation of patriotism; the virulent derangement of a healthy function. It denies the broad identity of the world's interests and tries to magnify the eye at the expense of the ear, the hand at the expense of the foot. It would set up hypertrophies, malignant and cancerous, within the broad body of mankind; and thence comes lingering death.

The League of Nations is our hope; and yet not the League as it is, but the League as it

might be : a League including America (her ideals restored), Germany (her goodwill restored), and Russia (her sapity restored) ; a League to whose Court of Justice all nations (even the largest) had consented to surrender all their international issues, for settlement ; a League under whose direction the political and economic sicknesses of our day had been healed in a broad, intelligent way ; a League which would evolve a more perfect system of international economic co-operation and control ; a League whose all-embracing federalism would reconcile the disharmonies of nationalism into a millennial Parliament of Man.

We seem to have wandered far away from our titular theme of unemployment, but that issue has in reality followed us like a shadow throughout all this discussion. For the unemployment which afflicts us to-day springs no longer from local maladjustments in the machinery of national industry. It is rather the most glaring symptom of a crisis in our whole international civilization. A search into its causes reveals a perilous assault by the forces of nationalism on the needs of internationalism, an assault in whose outcome the employment of industrial Europe sways in the same scale-pan as its very existence. The cure of unemployment involves the establishment, through the League of Nations, of world-wide political co-operation that shall correspond to and support our economic internationality.

The war was a cataclysmal warning that civilization must embrace internationalism or perish. The lesson has been only half learnt,

and is fading from memory. *Unemployment is now another warning at the eleventh hour.* Herein the gods have shown great patience, but they will not withhold their anger for ever.

## CHAPTER VI

### CEREBRAL DECAY

AN epilogue in pessimism may seem a piece of supererogatory gloom. Surely, it will be said, the situation just reviewed is dark enough without peering into blacker gulfs beneath!

Yet to close with a recital of politico-economic crises and remedies would be to fall short of reality. The laws peculiar to political economy have been potent influences in determining the history of mankind, yet they are no more the complete and final authors of that history than an environment of inorganic matter in tri-dimensional space has been the sole determinant of biological evolution. In the varying mental capacities and procreative proclivities of man himself are we to find the complementary causes which, working subject to economic and physical laws, complete the complex inspiration of his historical course.

Unemployment is ultimately a problem of population. It may be regarded as a dislocation in an industrial system, but that system functions, not through busy automata, but in the sentient lives of the highest of terrestrial animals. The operations of industrialism may be expounded in terms of certain generalized tendencies or principles, but its very survival as a form of

civilization depends on innate qualities of mentality and character in the human creatures who bear it up. In searching into the origins of unemployment we thus face considerations not only of economics, but also of social anthropology.

Recapitulation of the present politico-economic perils of the world, as outlined in the two preceding chapters, is portentous enough. There is the destruction of resources by war; the demoralizing strife of classes within nations; the agrarian revolution which threatens to starve out the urban civilization of Eastern Europe; the proletarian upheaval in the cities, demanding control and standards of life that may wreck the industrial machine; the breakdown of international trade through the collapse of Europe; and the obstruction to world-unity presented by the mad nationalism of certain sovereign States. Contemplation of such hazards could easily convince one of the malign operation of dark forces—invisible lines of destiny stretched out through the void and dominating the seen world of life. Immanent in man appear perverse fluxes of passion, wide-sweeping movements of insane emotion working towards his destruction. To pessimistic second sight, the shadows of departed Babylon, Nineveh, Memphis, and Cæsarean Rome may well be brooding over the present capitals of the Western world.

Yet this precarious situation is not beyond hope. We have to-day a control over Nature unknown to any previous civilization. We have come to understand the nature of man and of civilization itself as never before. Mad national-



istic ambitions may be rampant, but we have also witnessed a world-wide enthusiasm for high and peaceful ideals unparalleled in history. Provided that this new spirit of intelligent idealism can soon sway democracies and their all too representative Governments, the solution of all these menacing problems may be close at hand. For then would follow a universal League of Nations and international co-operation for the economic and social welfare of all peoples.

But there is one further shadow to mar the picture, one discord to shatter the symphony of civilization. It is a consideration that has entered into the life-history of every culture, past and present. It is the anthropological question of dysgenic selection, the danger of the elimination of brains from the race.

Professor Flinders Petrie and others have studied with great interest the "cycles of civilization" which are traced out in the history of the past. Time and again, a race has evolved an economic system permitting progressive expansion of wealth and numbers. In each case there has been a long period of steady growth, followed by a brief culminating episode of splendour and a rapid decline into oblivion. These cultures have been like rockets, soaring up in ascending and broadening trajectories, bursting into stars, and falling back to earth in charred ruin.

The industrial civilization of modern times has flamed up the steepest and highest course of all. Must it too share the fate of its predecessors, falling from greater heights but with no less certainty? Is this phase of decline in-

evitable, a decay implicit in the very nature of things? Or is it possible, with the knowledge which we have wrested from life, to defy dissolution and press upward into a destiny more imposing still, into a civilization not only massively quantitative but qualitative as well, in which accumulated wealth shall suffice for the utmost social welfare and intrinsic development of every individual, and in which every individual shall flower gloriously in the intelligent service of society?

The fundamental condition, on which alone this decision will depend, is the hereditary transmission of high intellectual and moral qualities. Man towers above the rest of the animal world because of his brain power and moral character. The economic basis of civilization, whereby Nature has been forced to support vast populations, has been evolved by human intelligence, by the brains of scientists and financiers; and has been maintained by moral qualities, such as patience, honesty, thrift, self-control and wisdom. It has been shown beyond all rational doubt that these mental and moral attributes admit of strict limitation; that they vary enormously as between one individual and another; and that the innate capacity for their development is absolutely conditioned by heredity. It follows quite naturally that if the mechanism of civilization becomes complex beyond the capacities of the race to perform its functions, or if the mental and moral qualities of the race actually degenerate and sink below the level required by the complexity of the economic and political system, the result must be ruinous collapse to a more primitive

form of civilization commensurate with the mentality and morality of the race.

There is little doubt that this has been the chief cause of cultural decline in the past. It is not *race suicide* but rather *brain suicide*, the loss of the highest mental and moral types through whom alone the maintenance of the complex civilization is possible.

In our modern world we may see both a growing complexity in civilization and a progressive qualitative decadence in man. The old relations of master and servant are hardly comparable in complexity with the personal relationships arising out of the modern trustification of industry. Lessened hours of labour give increased leisure, which tends to be dissipated in demoralizing amusements and relaxation. A cosmopolitan familiarity with varying social customs and standards breaks down the authority of traditional morality, turns a younger generation loose into an orgy of unrealized depravity, and makes moral steadfastness more critically essential than ever before.

The tendencies in racial inheritance are more disquieting still. So far as the matter has been scientifically studied through the broad totals and statistical averages resulting from the social and educational surveys and intelligence tests of demographers, social anthropologists and experimental psychologists, two broad facts stand out: First, in modern populations, conspicuously valuable mental and moral qualities are to be found only in a minority of perhaps 20 per cent.; in a further 70 per cent. there are no strikingly positive qualities of good or evil; and in a

final 10 per cent. appear the gravest antisocial qualities of criminality, mental defect and innate moral perversion. Second, one-quarter of each adult generation begets one-half of the succeeding generation, and this more fertile one-quarter tends to coincide with the lowest qualitative one-quarter of the national population.

There can be only one end to this process, an end which finds its nearest analogue in human cytology. In the neurophagy of senile decay, the brain cells are outbred and absorbed by the individual's own phagocytes; the governors and philosophers of the body give place to the scavengers of the body. So, too, modern civilization may recover from economic wounds and nationalistic fevers and yet sprawl in the shadow of senility and death because of the atrophy of its highest human elements. It only darkens the picture when we remember in addition that, owing to the dysgenic selection of war, much of the best brains of Europe lies spattered about its battlefields.

The present Occidental civilization, based on industrialism, is an indivisible unity. That the unemployment due to flaws in the industrial system requires international treatment for effective elimination has been recognized, and provision to that end has but recently been made. That unemployment may spring from the assaults of nationalism (in war or peace) on the essential internationalism of modern economics is a lesson now being inculcated through the suffering of nations. But the unemployment of decadence, involved in the mental and moral phthisis of nations, is neither realized nor understood. Signs

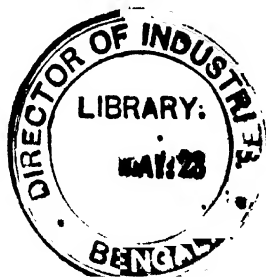
of that decline can be found throughout the whole of our international civilization. The possible collapse, through man's generic imbecilification, of that whole system of life is the most profound of the international aspects of unemployment.

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